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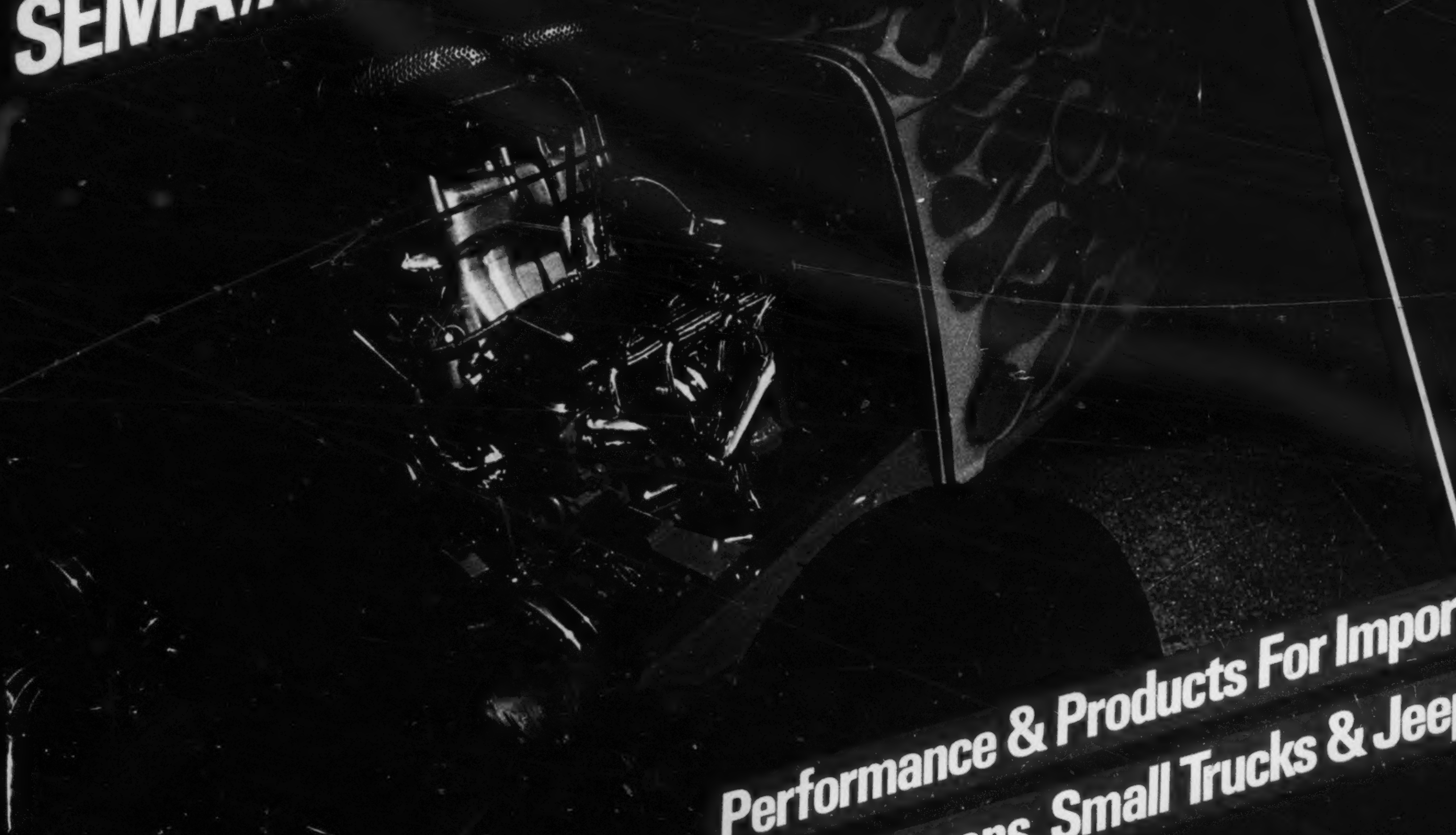
Chilton's

AUTOMOTIVE MARKETING

The Marketing/Business Magazine for the Retail Aftermarket

OCTOBER 1986

SEMA/AI Show Preview



Performance & Products For Imports

Mini-vans, Small Trucks & Jeeps

SPECIAL SECTION:

Detailing The APAA Show

Chilton's

AUTOMOTIVE MARKETING

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SPECIALTY EQUIPMENT MARKET ASSOCIATION
SEMA

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Performance is back! But it's not the same market you may remember from your cruisin' days.

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There are three different markets here. And you can sell to all of them with some planning.

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Import parts are an important factor in today's aftermarket. Are you ready to sell them?

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About Our Cover: This all steel 1932 Ford coupe is owned and was built by Frank Leonetti of Folsom, PA. The car is chopped and channelled and runs with a mildly modified 350 cu. in. Chevy engine. The custom purple lacquer was mixed and applied by the owner.

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PUBLISHER'S NOTES

SPECIAL MARKETS

New Jeep buyers have the same average annual income as new Mercedes buyers ($79,000). That means, according to research editor Philip Katcher, they'll buy upscale parts and accessories. Contrast that with the annual average income ($34,500) of light truck buyers and items they buy for their vehicles. You've identified different markets.

There're more clues to successfully marketing truck, minivan, and utility vehicle products in Katcher's piece.

To that, we've added contributor Ed Kaufman's wisdom in stories on the performance and import car parts markets.

Your annual checkups should include one for insurance, or "risk management," according to senior editor Gail Krueger-Nicholson. She writes about special coverages . . . and special risks.

Relive the 1986 APAA Show with "Detailing the APAA Show," sponsored by Radiator Specialty. It previews a monthly feature – "Detailing The Market" – expanding Automotive Marketing's news coverage. It starts in January 1987.

Our retail profiles this month look at two performance operations with stories by contributor Dick Wells and our senior news and feature editor John Wirebach. And there're pages crammed full of products for your review.

Hope you enjoy our SEMA/AI Show issue. Let us know!

Sarah Frankson,
Publisher

THE THREE FACES OF LIGHT TRUCK BUYERS

Light trucks, mini-vans, and Jeeps are similar in the eyes of the law, but their owners differ considerably—as do the aftermarket products they buy.

by **Philip Katcher**, Research Editor

Officially, the definition of light trucks, as spelled out by the U.S. Government for tariff purposes, is so vague it includes mini-vans and even utility vehicles (e.g., Jeeps) along with traditional light trucks. In reality, all three vehicle types are different, and their typical owners are even more different. Knowing the differences in the types of owners and the types of products they buy can mean the difference between selling in these markets successfully or unsuccessfully.

The Light Truck Owner

Consider the average light truck owner: male, with a median age of 36 years old—six years younger than the buyer of a full-sized truck. In fact, some automaker representatives call compact pickup trucks "the official youth vehicle" in California.

Otherwise, as reported in several recent studies, the average light truck owner has a household income of $34,500 a year (slightly below the $35,600 median household income for all new car buyers); uses the truck as the household's primary vehicle; and has attended at least some college. Most owners drive their light trucks for personal, rather than business, use.

Generally, the light truck owner profile fits the profile of an average DIYer. Moreover, the light truck owner is predisposed to buy aftermarket products. A General Battery Corp. study indicates that 82% of all light truck owners plan to buy some special equipment or an accessory for their vehicle within the next year. So selling to this group is generally easy. And, most of the products they plan to buy are products especially designed for light trucks, too.

Among the most popular light truck products—products light truck owners themselves mention as being in their future buying plans—are heavy duty shocks, off-road tires, wheels, driving/fog lights, heavy duty springs, lift kits, roll bars, grille guards, electric winches, and exhaust headers. There are, however, other products that many light truck owners don't mention, often because they don't know their benefits.

For example, driving tests have shown that a tonneau cover can improve a light truck's gas mileage 9%; while a cab installed over the bed can improve the mileage an impressive 13%. Knowing things like this helps light truck owners, and they will spend the dollars to improve their vehicles with this type of product.

The Mini-Van Owner

In many ways the mini-van owner is a different sort. The mini-van has begun to take the place of the station wagon, and its owner is more like a typical station wagon owner than a light truck owner. Therefore, his wants and needs differ accordingly. *Newsweek's* recent study, *1986 Buyers of New Cars*, reveals some interesting data about these mini-van owners.

Males make up 68% of mini-van owners; 92% of mini-van owners are married. In all, 6% of new car buyers 25-34 years old, 7% of new car buyers 35-54 years old, and 4% of new car buyers over 55 years old bought mini-vans. The median household income of a mini-van owner is $45,400—notably above that of the typical light truck or passenger car owner household. The mini-van is the principal vehicle in 68% of households with these vehicles.

Most mini-vans are used for getting to and from work—only 11% of their owners reported that their mini-van's principal use is purely pleasure. Finally, 76% of people who bought mini-vans didn't consider buying any other type of vehicle.

Mini-Van Owner Types

The *Newsweek* study also describes the types of people who buy mini-vans. The results were remarkable. The study found that the largest group of mini-van buyers is made up of people who are individualistic in outlook; who are more concerned with what products actually do than the image they present; who are leaders in their professions; and who are self-reliant but careful about their spending, and who are discriminating. In other words, trendsetters, rather than followers, are buying mini-vans.

These findings indicate that there is room for great growth in sales of this type of vehicle—possibly more than in any other type of vehicles, since the trendsetters, who are buying mini-vans, tend to lead the rest of the population in their buying habits.

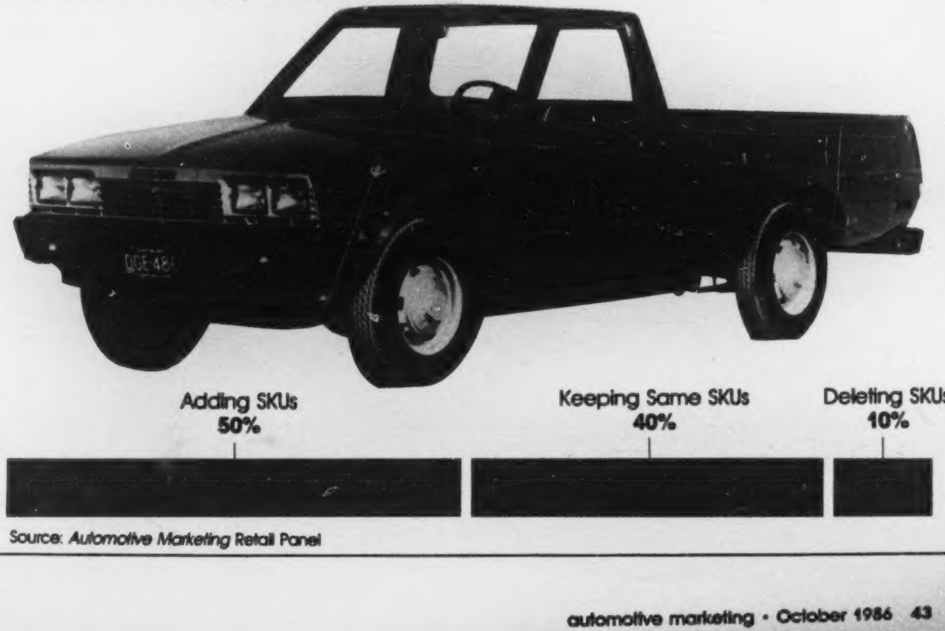
Mini-van vs. Light Truck Owners

Geographic locations of mini-van owners and light truck owners also differ. By area, 14% of new mini-van owners live in the Northeast; 38% in the North Central; 33% in the South; and 15% in the West. By contrast, most light truck owners are in the northern Rocky Mountain States.

Politically, 45% of new mini-van own-

ADDING, DELETING LIGHT TRUCK PRODUCTS

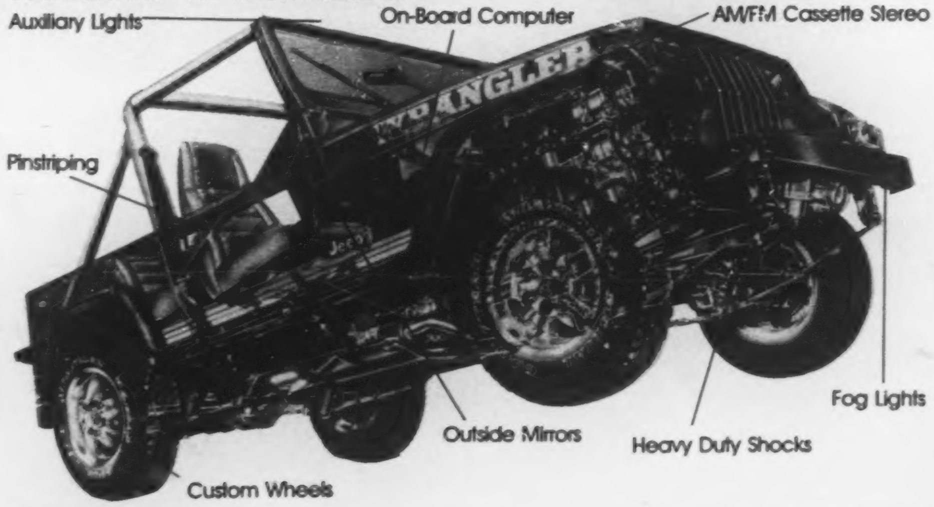
We asked our retail panel if they planned to add, delete, or keep the same product mix of light truck items in 1987 as they had in 1986.



Source: *Automotive Marketing* Retail Panel ers consider themselves conservatives, while only 19% say they are liberals. The rest are middle-of-the-road voters.

Mini van owners will not buy traditional light truck items. Not for them, the off-road lights, roll bars, gun racks, musical horns, and tool boxes that traditional light truck owners snap up. Yet there are a number of products that mini-van owners will purchase. Generally, they are the same type of products that luxury car or station wagon owners buy. They want functional accessories, things that do a specific job rather than things that go flash in the night. Things like floor mats, fog lights, security devices, and good audio equipment are what mini-van owners want and will buy.

CUSTOMIZING THE UTILITY VEHICLE



The accessories added to the average utility vehicle are ones that tend to make it a more "civilized" vehicle.

Courtesy AMC Corp.

The Jeep Owner

Then, there's the Jeep and similar utility vehicles. Owners of these vehicles are different from mini-van and light truck owners. Still officially "light trucks," these vehicle owners are largely male—American Motors, which makes Jeeps, says 82% of Jeep buyers are male. And their average income is $79,000 (around the same as the average Mercedes buyer's income), which makes Jeep owners the best heeled of these groups.

Many Jeep owners are not really DIYers—at least conventional blue-collar, low-income DIYers. Any work they do on their vehicles is done strictly for pleasure, and is not apt to be involved, complicated repair work. They get their service and installation work done professionally. Indeed, as most of them are professionals themselves, they prefer to have other professionals handle technical jobs.

They seek a certain automotive style that projects a rough, macho look. But they really aren't frontier type people; they're doctors rather than farmers. One owner of 21 Texas car dealerships, including some that sell Jeeps and similar vehicles, was recently quoted in *Forbes* as saying, "I'd guess 90% to 95% of the ones we sell never get off the road." And, utility vehicle owners pay big money for that style, as much as $24,000 for a fully-equipped top-of-the line Jeep Grand Wagoneer. Despite the costs, these vehicles are getting more popular. Total Jeep sales in California—long a trend-setting state—climbed 25% in the first half of 1986 from 1985.

Jeeps, and similar vehicles, are not primary household vehicles. Their owners rarely drive them back and forth to work. They're fun vehicles, used to tool around on weekend afternoons. President Reagan has two he drives around on his California ranch; Ex-President Ford drives around Palm Springs, CA, in his.

That's not to say that Jeep owners don't patronize the aftermarket. People who are as conscious of making a statement about themselves through their vehicles as Jeep owners are tend to customize their vehicles. They want fancy paint jobs, pinstriping, and extra lights outside, while inside they put on fancy seat covers (nothing but top-of-the-line is good enough for them), good AM/FM cassette stereos and speakers, on-board computers, and—would you believe—even air conditioning.

Selling to this group means stocking and merchandising top-of-the-line products; nothing but the best in accessories will do for this crowd.

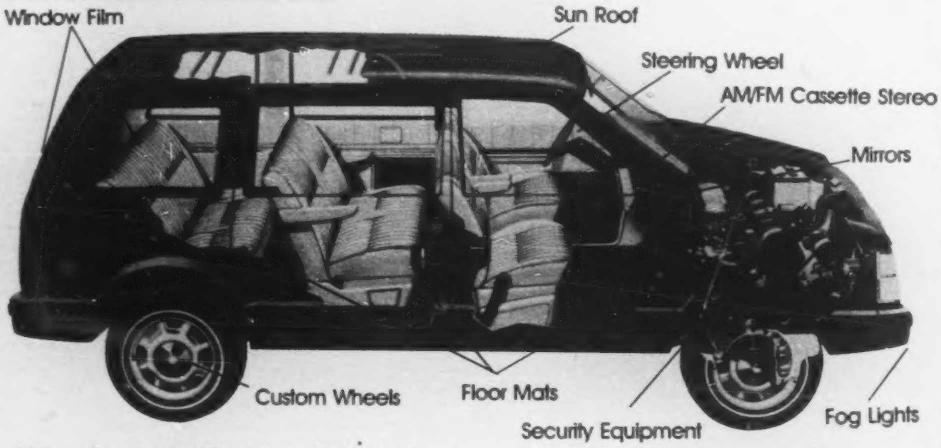
Selling These Markets

Therefore, the three types of "light trucks" differ widely. Their owners are even more different. The retailer who wants to sell into the overall "light truck" market has to accept these differences and direct his merchandising accordingly—basic light truck products to traditional light truck owners, luxury car and station wagon accessories to mini-van owners, and flashy show-off products to Jeep and similar utility vehicle owners.

Advertising should differ according to groups; light truck and Jeep owners are looking for fun while mini-van owners are looking for function. Displays should differ, with mini-van equipment mixed with ordinary passenger car merchandise, while light truck and utility vehicle accessories should be prominently displayed by themselves. Even pricing points should differ, with higher margins on Jeep and mini-van products possible since their buyers shop for quality rather than price.

Making these differences part of the "light truck" merchandising programs will ensure their success. ■

CUSTOMIZING THE MINI-VAN



Although not considered a vehicle that is often customized, mini-van owners do add a number of accessories to their basic vehicles.

Courtesy Chrysler-Plymouth

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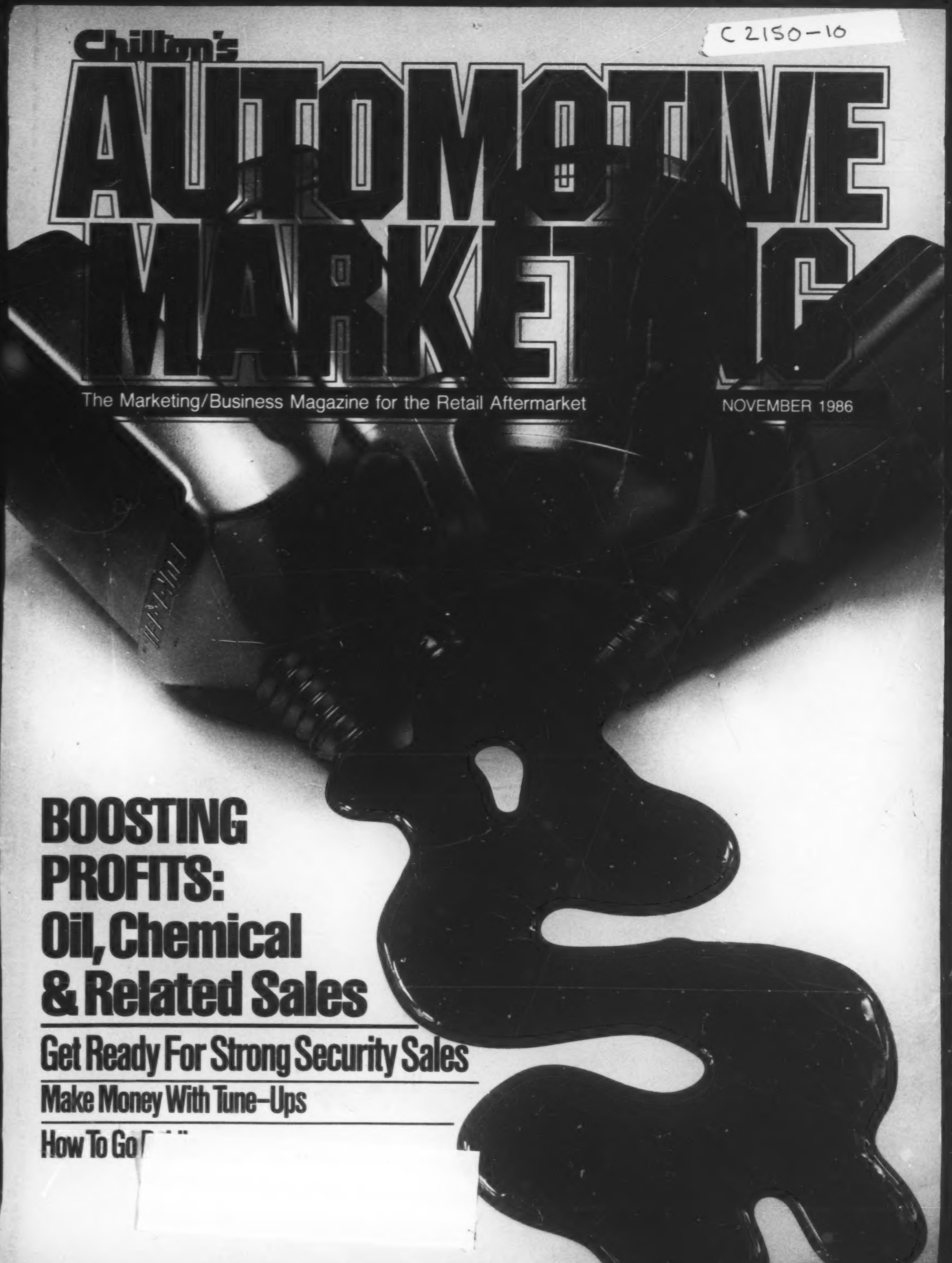

BOOSTING PROFITS: Oil, Chemical & Related Sales

Get Ready For Strong Security Sales

Make Money With Tune-Ups

How To Go [illegible]

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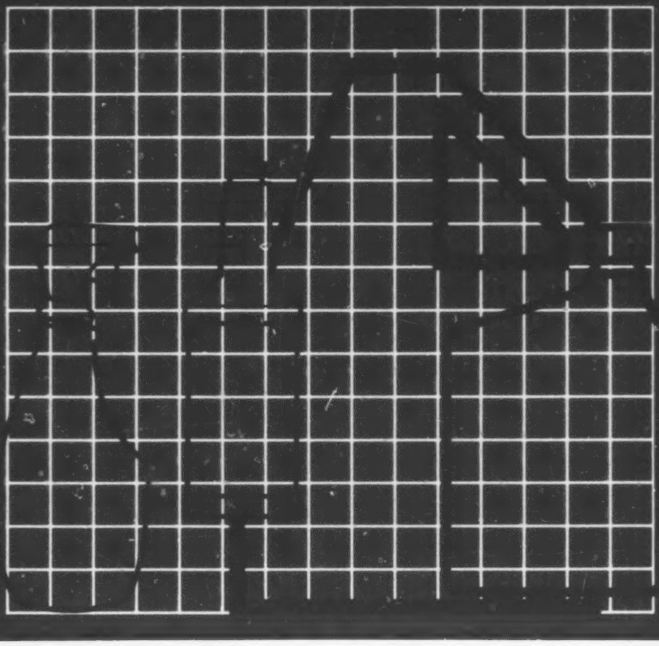

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Trends In The Motor Oil And Chemical Market 16
Who is selling what in this important product category? Here's what you need to know.

Going Public 25
We offer a primer on taking your business public and issuing stock for financial growth.

Get Ready For Strong Security Sales 29
Protect your bottom line! Security sales should jump in 1987. Here's why.

Managing For Productivity 32
Can you recognize productive behavior when you see it? How can you make it happen in your store?

Fear Of Tune-Ups 34
Does this popular service job strike fear in the heart of your service bays? It shouldn't, it should make you money.

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PUBLISHER'S NOTES

FOOTBALLING SKUs

Chemicals and oil! They command attention, they draw traffic, and they make sales! But, given the industry's practices of footballing some of these items, do they yield all possible benefits to the bottom line? Contributing editor Edward Kaufman talked with makers and sellers about current action plans for these controversial product lines.

This issue premieres Automotive Marketing's Index, a look at aftermarket economic facts and figures. The AM Marketbasket analyzes, according to geo-demographic regions, the prices of common DIY parts.

Security products, when displayed correctly, do well for retailers but you must promote them if they're going to be the profit makers they can be. Senior Editor Gail Krueger-Nicholson also looks at radar detectors in parts stores.

The government has tough rules requiring exact conformation if you want to take your company public. Get details from Touche Ross' Richard Wolfe in the final part of this series on capital expansion.

If anyone can, contributor David Evans can determine if you're making profits on tune-up activities in retail service bays. Check it out.

As usual, we're anxious to know how you like our issue, and what you want to read in the months to come! Let us hear from you!

Sarah Franlson,
Publisher

THE AUTOMOTIVE MARKETING INDEX

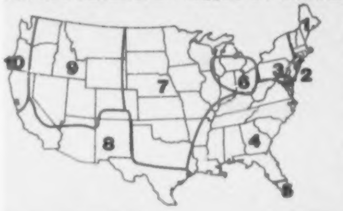
THE 1986 *AUTOMOTIVE MARKETING* MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index. The products include a non-resistor spark plug; an oil filter; a can of 10W30 motor oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

NATIONAL AVERAGE MARKETBASKET PRICES FOR AUGUST 1986

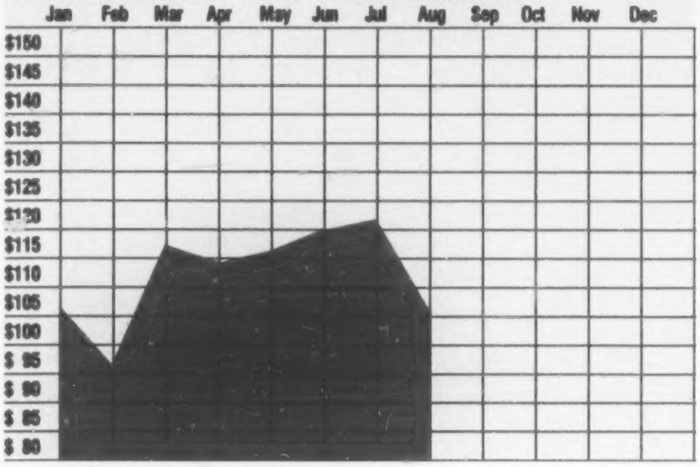
A non-resistor spark plug:	$ .68	A gas-charged shock:	$ 12.17
An oil filter:	1.85	One gallon of antifreeze:	3.00
A can of 10W30 oil:	.87	One pair of wiper refills:	2.35
A can of paste wax:	3.35	A 40-month battery:	33.12
An AM/FM Cassette:	49.81	**Total:**	$107.20

AM MARKETBASKET PRICES BY MARKETING AREA FOR AUGUST



1. Greenbelt East:	$ 95.96
2. Megapolis East:	100.02
3. Smokestack East:	$118.03
4. Old South:	97.71
5. Caribbean South:	111.82
6. Smokestack Central:	99.57
7. Grainbelt Central:	108.08
8. Spanish West:	85.20
9. Desert West:	152.53
10. Greenbelt West:	102.66

NATIONAL AVERAGE MONTHLY 1986 AFTERMARKET BASKET PRICES



AFTERMARKET BUSINESS INDICATORS

	Unit/Base	Mo/Qr	Current Period	Prior Period	Year ago, Same Period	Low (61-86)	High (61-86)
Personal Income	billion	June	$3,479.2	$3,475.7	$3,304.0.6	$403.8 (Jan 61)	$3,479.2 (Jun 86)
Personal Consumption Expenditures	billion	2Q	$2,730.1	$2,697.9	$2,576.0	328.5 (1Q 61)	2,730.1 (2Q 86)
Consumer Price Index	67 = 100	June	327.9	326.3	322.3	89.3 (May 61)	327.9 (Jun 86)

AMERICAN-BUILT CARS SOLD IN SEPTEMBER

Americans bought 5.8% more U.S.-built cars in September 1986 than in September 1985. But the growth was all in the beginning of the month. During the last ten days of September domestic sales actually fell 16.7%. And, manufacturers still have a fairly large backlog of 1986 models to get rid of.

Maker	September 1986	September 1985	% Change
American Honda	23,431	12,873	74.7%
American Motors	11,115	12,188	- 12.5
Chrysler	140,451	108,906	23.8
Ford	219,609	229,403	- 8.1
General Motors	519,077	462,879	7.7
Nissan	5,098	6,641	- 26.3
Volkswagen of America	6,135	6,492	- 9.2
Total U.S. Industry	924,919	839,382	5.8

LIGHT TRUCKS (DOMESTIC AND FOREIGN) SOLD IN SEPTEMBER

Class I	279,956	204,252	37.1

Sources: E.F. Hutton & Co., Motor Vehicle Manufacturers Association

1986 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various retail chain, manufacturer, and distributor stocks in different stock exchanges for the 52-week period prior to October 22. Prices have been climbing since the major drop on the New York Stock Exchange in the middle of the September.

	Exchange	52-week High	Low	10/22 Quote	P-E
Cardis Corp.	AMEX	10	5 7/8	8	7
Champion Spark Plugs	NYSE	11 7/8	7 3/4	9 3/4	–
Crown Auto	OTC	4 1/4	3 1/4	3 3/8	12
Dana Corp.	NYSE	34 7/8	22 1/2	31 7/8	15
Echlin	NYSE	20 1/4	11 1/2	19 1/4	17
Genuine Parts	NYSE	48 3/8	30 1/2	42 3/8	19
Lucky Stores	NYSE	37 3/8	22 1/2	35 1/4	25
Parker Hanniflin	NYSE	30 1/2	20 1/4	25 1/4	13
Pennzoil	NYSE	91	44 3/4	68 1/4	39
Pep Boys	NYSE	48 1/4	23 3/8	43 7/8	33
Perry Drugs	NYSE	20 1/8	12 7/8	13 7/8	17
Purolator	NYSE	24	15	20 1/2	–
Quaker State	NYSE	30	21 3/4	25 1/2	12
Republic Auto	OTC	10 1/4	7	7	–
Rite Aid	NYSE	35 1/2	22 1/2	27 7/8	16
Sealed Power	NYSE	31 1/4	23 1/8	25 1/8	10
Southland (Pref)	NYSE	76	53	67 1/2	–
Southland	NYSE	56 7/8	37	47 1/8	21
Standard Motor Parts	NYSE	20 1/8	11 1/4	18 3/8	17
TBC Corp.	OTC	14	8 3/4	9 3/4	18
Tenneco	NYSE	43 1/8	34 1/2	40	9
Trak Auto	OTC	17 3/4	10	17	3
Triad Systems	OTC	13 1/8	7 3/4	9	15

PRODUCT OF THE MONTH: SPARK PLUGS

The 1986 *Automotive Marketing Consumer Automotive Repair Study*, told us about the individuals who purchased and installed spark plugs during the 12-month period prior to the study.

			Age					Income				Hours Per Month Spent On DIY				Number Of Cars Responsible For		
Total	Male	Female	-25	25-34	35-44	45-54	55+	Under $20K	$20-30K	$30-40K	40K+	-1 hr	1-5 Hrs	6-10 Hrs	11+ Hrs	1	2	3 or More
100.0%	89.2%	10.8%	25.8%	32.3%	18.2%	8.6%	15.0%	39.7%	29.6%	14.3%	16.4%	8.0%	53.0%	20.5%	17.2%	27.7%	40.4%	31.9%

MARKET LINE

Valvoline Buys Rapid Oil Change, Joins Fast Lube Battle

At the end of September, Valvoline, Lexington, KY, acquired Rapid Oil Change, Inc., Minneapolis, and joined Quaker State and Pennzoil in operating or investing in fast lube stores. During the past year, Pennzoil, Houston, TX, invested $100 million as a 50% partner with Jiffy Lube Intl., Baltimore, in opening 325 new fast lubes over the next three years. Quaker State, Oil City, PA, bought Minit-Lube in Salt Lake City, which operates more than 110. The three companies control about 85% of the oil sold through fast lubes.

Rapid Oil Change opened its first fast lube in 1976, and now has 45 operations, all company owned, in Minneapolis, Madison, WI, Albany, Rochester, and Syracuse, NY. The company would not comment on sales, but an outside estimate of $10 to $12 million is not unreasonable.

"This acquisition is an extension of Valvoline's strategy to grow in areas related to its basic business," Valvoline president John Boehm said. "We believe that Rapid Oil is the best operated company in the fast-growing fast lube business. We are particularly pleased that Rapid Oil management will continue to operate the company and provide leadership for extensive expansion of the business by Valvoline."

At press time, Rapid Oil and Valvoline executives were in the midst of a week-long planning session to set Rapid Oil strategy through 1992.

We asked if they'd been forced to act quickly for fear of being frozen out of the market by Pennzoil and Quaker State. "Forced is not the right word," a Valvoline spokesman said. "We've had a number of opportunities to enter the market. We were just not ready to do so. The trend is clear. There's a shift in the installed segment toward the fast lube, and Valvoline wanted to make sure it has a fair share of this market. We've had plans to enter the market for some time now. It was just a matter of where and when."

He would not rule out further acquisitions. "Competition in fast lubes is going to be rough because all the major oil companies are getting in on it. It's a new battleground."

SHARE OF OIL SALES THROUGH FAST LUBE OUTLETS

Prior to the Valvoline and Quaker State acquisitions, Pennzoil was far in front in share of market for quick lube sales with one of every two sales. How fast the new entrants will expand their companies remains to be seen.

Pennzoil	50%
Quaker State	25%
Valvoline	10%
All others	15%

Source: *Automotive Marketing* estimates from various sources.

We asked what effect fast lubes have on DIY sales. "The oil companies are not behind the growth of fast lubes. The market started ten years ago, operated by independents. The consumer is more convenience oriented. There are more lawn services, people eat out more instead of cooking. Time is a scarce resource and people are looking at any way to save time. The consumer fueled the growth of fast lubes. And the accelerated growth has attracted the leading oil companies. But again, we see the trend on the installed segment rather than DIY for now."

Looking ahead, however, the spokesman said the volatile oil market will make oil companies "cross bridges that haven't been crossed before."

A Rapid Oil spokesman said the company believes Valvoline wanted a management team for expansion. "They're putting us in charge of continuing to grow. We're going to give Quaker State and Pennzoil a run for their money." ■

Interview: Palmer of USA Fast Lube

Bob Palmer has a big map of Denver on his wall, with flags of many colors pinned to it. Blue flags signify 13 USA Fast Lubes open or under construction. Yellow flags indicate eight properties he's working on for a deal.

Then there are 25 orange flags, one for each Grease Monkey fast lube in the area. There are nine X's for good Grease Monkey locations and six little white flags where they're not doing too well. (The others are somewhere between good and bad.) Palmer likes the white flags. Palmer doesn't like any competitor but he particularly doesn't like Grease Monkey, which is also headquartered in Denver.

Palmer started Grease Monkey in 1978 and built it to 32 operating stores and close to $3 million in sales before he left in a stockholder's fight.

"I had no intention of getting back in the business," Palmer said. (He says he only started Grease Monkey because Jiffy Lube wouldn't let him sell Jiffy Lube franchises). "I turned down offers from other fast lube franchises. I wanted to get into a fast food operation. But we never got together. I ran for mayor of Lakewood (a Denver suburb) and lost by 2,400 votes and wrote a book on how to open a fast lube. My wife and I went on a few trips and spent money like water. So I needed money. I decided I knew about fast lubes. Luckily I didn't have a no-compete clause with Grease Monkey."

So in September 1983, Palmer started USA Fast Lubes. He sold his first store in May 1984 to Bill Kirksey, who'd started out to buy a Grease Monkey franchise and didn't like it.

USA Fast Lube has a different approach to the fast lube business. The ten minute oil change is still the key, but customers can also get tune-ups, brake jobs, and several other services at a USA Fast Lube. The fast lube is the traffic builder, and service the moneymaker.

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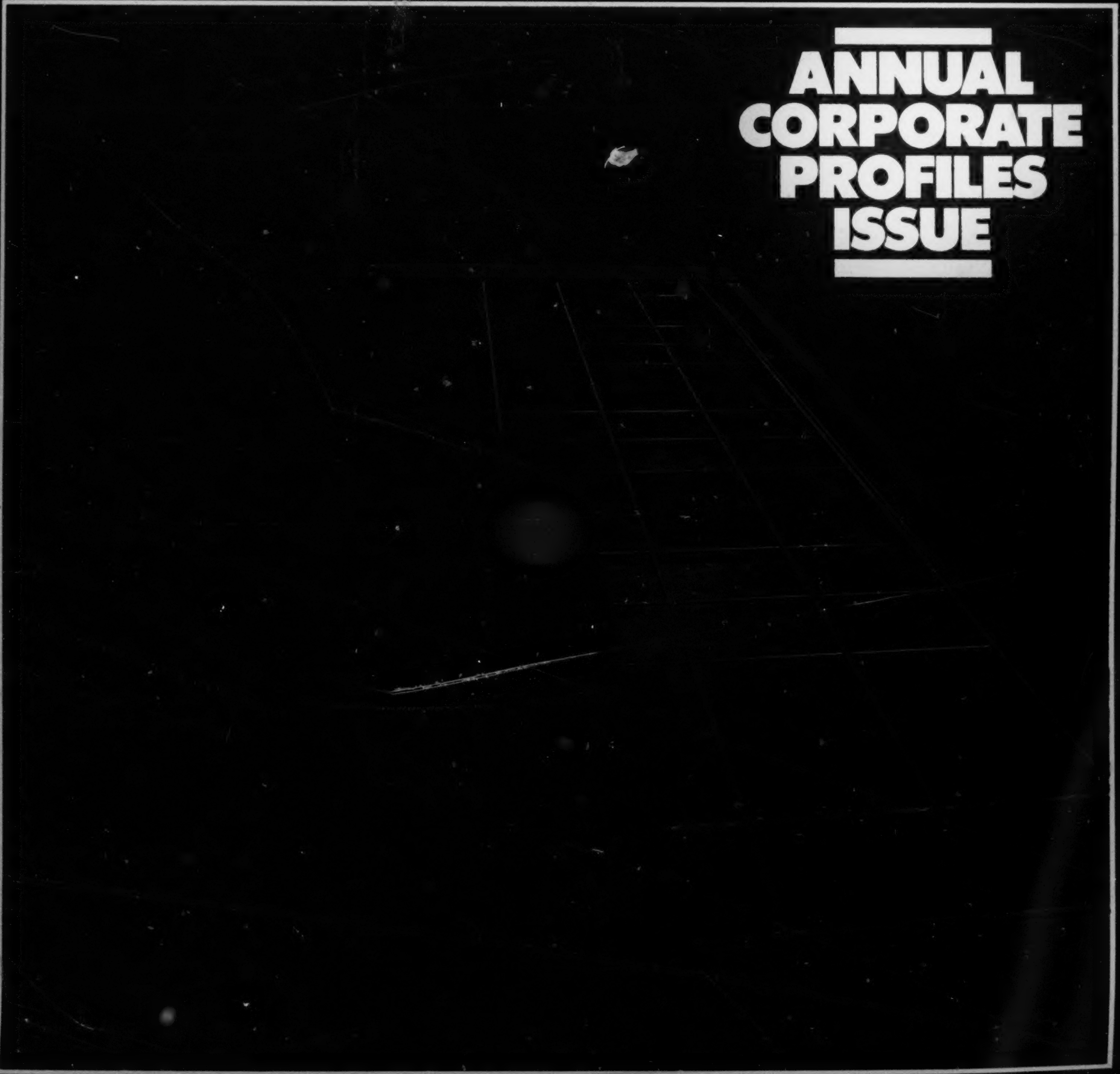
The Marketing/Business Magazine for the Retail Aftermarket DECEMBER 1986

ANNUAL CORPORATE PROFILES ISSUE



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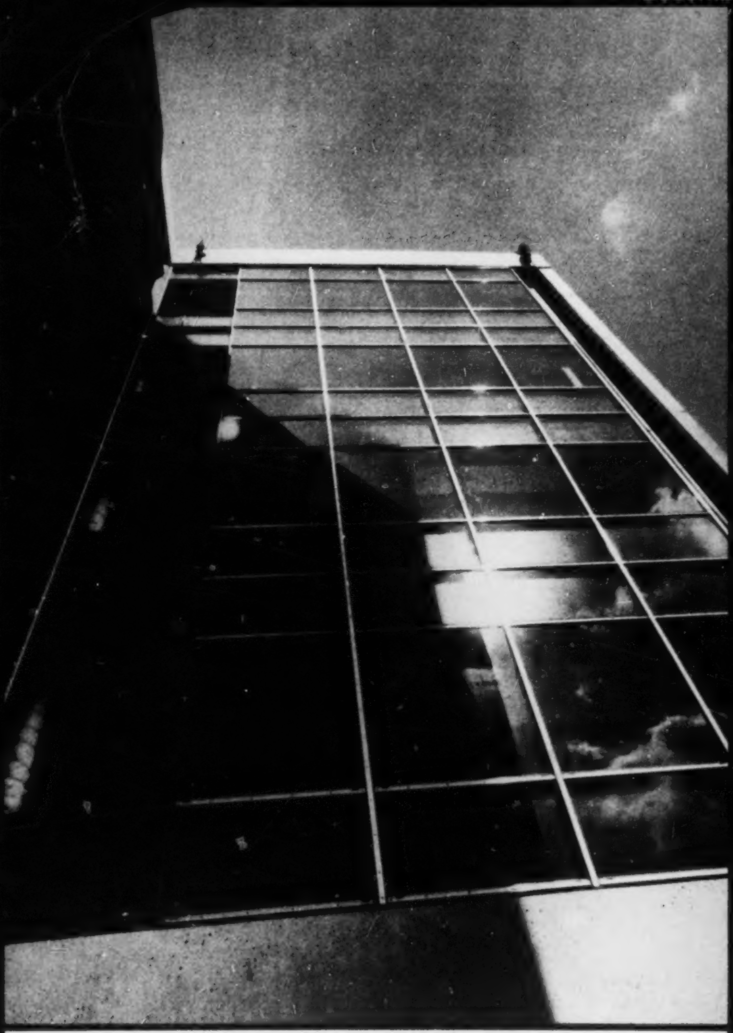

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THE AUTOMOTIVE MARKETING INDEX

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AFTERMARKET BUSINESS INDICATORS

	Unit/Base	Mo/Qr	Current Period	Prior Period	Year ago, Same Period	Low (61-86)	High (61-86)
Personal Income	billion	Aug.	$3,505.3	$3,492.6	$3,320.5	$403.8 (Jan 61)	$3,503.3 (Aug 86)
Personal Consumption Expenditures	billion	2Q	$2,730.1	$2,697.9	$2,576.0	328.5 (1Q 61)	2,730.1 (2Q 86)
Consumer Price Index	67 = 100	Aug	328.6	328.0	323.5	89.3 (May 61)	328.6 (Aug 86)

AMERICAN-BUILT CARS SOLD IN OCTOBER

Americans bought 5.8% more U.S.-built cars in October 1986 than in October 1985. But the growth was all in the beginning of the month. During the last ten days of October domestic sales actually fell 6.4%. But, there there were less cars produced in October than earlier months so sales have not lagged too badly behind production

Maker	October 1986	October 1985	% Change
American Honda	27,106	10,691	153.5%
American Motors	7,569	9,888	- 23.5
Chrysler	102,269	98,642	3.7
Ford	155,142	140,283	10.6
General Motors	328,735	325,572	1.0
Nissan	6,623	6,953	- 4.7
Volkswagen of America	5,372	6,370	-15.7
Total U.S. Industry	632,816	598,399	5.8

Sources: E.F. Hutton & Co., Motor Vehicle Manufacturers Association

1986 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various retail chain, manufacturer, and distributor common stocks in different stock exchanges for the 52 week period prior to November 20. The securities exchange insider trading probes in November caused many prices to drop.

	Exchange	52-week High	52-week Low	11/20 Quote	P-E
Armor All	OTC	12 1/2	10 1/4	10 7/8	–
Cardis Corp.	AMEX	10	5 7/8	8 3/4	8
Champion Spark Plugs	NYSE	11 7/8	8 1/4	10 3/8	–
Crown Auto	OTC	4 1/4	3 1/4	3 1/4	–
Dana Corp.	NYSE	35 1/4	24 1/2	34 5/8	16
Durakon	OTC	18	6 1/2	12 3/8	–
Echlin	NYSE	20 1/2	12	19	17
Genuine Parts	NYSE	48 3/4	31 1/8	43 1/8	19
Lucky Stores	NYSE	37 7/8	22 1/4	32 1/8	26
Parker Hannifin	NYSE	30 1/2	20 1/4	25 3/4	13
Pennzoil	NYSE	91	47 7/8	72 1/8	70
Pep Boys	NYSE	48 1/4	25 1/8	40	30
Perry Drugs	NYSE	20 7/8	12 1/8	12 5/8	15
Purolator	NYSE	28 1/4	15	24 3/8	–
Quaker State	NYSE	30	21 3/4	25 1/2	12
Republic Auto	OTC	10 1/4	6 5/8	7 5/8	–
Rite Aid	NYSE	35 1/2	23 1/4	28 1/4	17
Sealed Power	NYSE	31 1/4	23 1/8	26 3/4	12
Southland	NYSE	60 1/2	40	51 3/8	12
Standard Motor Parts	NYSE	20 1/8	11 1/2	18 1/4	14
TBC Corp.	OTC	14	8 3/4	11 3/8	20
Tenneco	NYSE	43 1/8	34 1/2	38 3/8	18
Trak Auto	OTC	18 3/4	10	17	121
Triad Systems	OTC	13 1/8	8 1/2	10 1/4	25

PRODUCT OF THE MONTH: GAS ADDITIVE

Drawing from the 1986 *Automotive Marketing Consumer Automotive Repair Study*, we look at the individuals who purchased and installed a gas additive during a 12-month period.

			Age					Income				Hours Per Month Spent On DIY				Number Of Cars Responsible For		
Total	Male	Female	-25	25-34	35-44	45-54	55+	-$20K	$20-30K	$30-40K	40K	-1 hr	1-5 Hrs	6-10 Hrs	11+ Hrs	1	2	3 or More
100.0%	76.2%	23.8%	25.4%	36.0%	15.6%	8.8%	13.0%	39.6%	23.0%	18.5%	13.6%	5.1%	61.0%	21.3%	11.6%	42.1%	33.8%	24.2%

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MARKET LINE

Will Japan Win, U.S. Lose? Why MOSS Talks Matter

About 19% of the cars on the road are Japanese made, and the percentage will continue to increase in coming years. Retailers will have to offer longer lines of parts for Japanese vehicles to satisfy these customers. But if present trends continue, and Japanese automakers get their way, retailers may find they will not be able to stock more than fast turn parts for Japanese vehicles, or at least be limited in where they can buy more complex parts for Japanese vehicles. So it's essential to American retailers that American suppliers sell to Japanese automakers. That's what the MOSS (Market Oriented, Sector Specific) talks hope to do, and why they concern both retailers and suppliers.

The talks began because of the almost $50 billion trade disparity between the U.S. and Japan, a good portion of which is in vehicles and auto parts.

American automakers sold about 1,500 cars in Japan last year, and American suppliers sold about $191 million worth of parts and accessories there, too (roughly 1% of the total Japanese OE and aftermarket).

This is a pittance compared to Japanese sales in the U.S. Japanese automakers sold 2.2 million cars and 768,000 trucks in the U.S. last year. The Automotive Parts and Accessories Association (APAA) puts the automotive parts trade deficit in 1985 at $5 billion (including $1.2 billion in parts sold to Japanese automakers in the U.S.).

Although the Motor & Equipment Manufacturers Association (MEMA) says the deficit is slightly lower, it is just as worried. Since 1981, according to MEMA data, Japanese parts exports to the U.S. have increased by $1.6 *billion*, while U.S. exports to Japan have increased by only $84.6 *million* in the same period.

MEMA also says that American motor vehicle parts and accessories employment has fallen by some 95,000 people over the past eight years, mainly due to the parts trade deficit. In 1978, total employment stood at 476,000; in 1986, the forecast estimates 381,000.

If you include jobs with the automakers in Detroit, the body count is even worse. The United Auto Workers figures that more than 160,000 American auto jobs have disappeared since 1978.

Although the situation is acute for the auto industry, it's just as bad in other American industries. The MOSS talks were arranged in 1985 by President Reagan and Prime Minister Nakasone to find ways to diminish the trade deficit.

Led by the U.S Department of Commerce, the U.S. team includes the Office of U.S. Trade Representative, and the Departments of State, Justice, and Labor. The Japanese delegation is headed by the Ministry of International Trade and Industry, and includes the Ministries of Foreign Affairs and Transport.

By the time this issue reaches our readers, round three of the auto parts segment MOSS Talks will be underway in Tokyo. Supported by both APAA and MEMA,

JAPANESE CAR MAKERS IN NORTH AMERICA

So far, seven Japanese automakers have opened or are building plants in the U.S. The Motor Equipment Manufacturers Association (MEMA) expects an eventual total of ten with a capacity of 2.1 million vehicles per year. There are also four Asian automakers building plants in Canada. All the plants will be on line by 1989.

PLANTS NOW OPEN IN U.S.

Honda Accords, Civics	Marysville, OH 360,000
Nissan Sentras, light trucks	Smyrna, TN 240,000
NUMMI (GM/Toyota) Novas	Fremont, CA 240,000

PLANTS BUILDING IN U.S.

Diamond Star Motors (Chrysler/Mitsubishi) New small car	Bloomington, IL 240,000
Fuji (Subaru/Izuzu)	Undecided
Mazda/Ford Mazda 626, Ford	Flat Rock, MI 240,000
Toyota 2.0 liter models	Georgetown KY 200,000

PLANTS BUILDING IN CANADA

Honda Accords	Allison, Ontario 200,000
Hyundai Excel	Bromont, Quebec 140,000
Suzuki/GM New small car	Ingersoll, Ontario 200,000
Toyota 1.6 liter models	Cambridge, Ontario 50,000

Sources: MEMA, MVMA, Wards, and *Automotive Industries* the American team has two negotiating objectives in the MOSS talks:

- Remove structural impediments to U.S. suppliers selling to Japanese OE manufacturers.
- Ensure American suppliers access to the global aftermarket for Japanese cars.

"We have a one-year negotiating timetable to clear away market distorting trade practices and to begin opening opportunities for U.S. automotive product sales wherever Japan builds and sells cars," said APAA president Julian Morris, who is chairman of an auto parts industry task group advising U.S. negotiators.

> ***"It means that retailers will have no access to certain parts."***

If this sounds familiar, it should. The relationship of Japanese automakers and their suppliers has always been a close knit, family affair. American suppliers have tried to crack the Japanese market for some time with little success. Outsiders are not welcome in the Japanese market, American suppliers feel. They say it's a rigged game. "They must think we're chumps," one observer commented, "the way we deal with foreign trade."

APAA believes the MOSS talks have very serious implications for the American parts industry. "Left unchecked, Japanese automaker/supplier families could control 50% of the content of *all* cars sold in America by 1989," says an APAA statement on the MOSS talks.

"Domestic cars with high U.S. content are being displaced by transplanted Japanese auto production using less than 20% American content, and by direct imports with little, if any, U.S. product."

The move to America by Japanese automakers has made the situation worse. Right now, Honda and Nissan are building cars and light trucks in Ohio and Tennessee; Toyota and GM are building Novas in California, and four other Japanese companies will have plants operating here in the next two years. In addition, one Korean and three Japanese automakers will soon open plants just across the border in Canada.

Last year, Japanese plants in the U.S. produced 189,000 cars and 107,000 trucks. John Creamer, manager of international activities for MEMA, who's been tracking the Japanese plants, believes that by 1990 there will be ten Japanese automakers in America producing 2.1 million vehicles. "Looking at U.S. consumption being about level, who will these 2.1 million vehicles take sales away from?" Creamer asked.

Worse yet, for American suppliers, the Japanese are bringing many of their own suppliers with them, and plan to construct the same kind of familial relationship in the U.S. APAA has suggested that as many as 300 Japanese suppliers will eventually land in the U.S. However, Creamer suspects that figure came as a result of a report asking members of the Japanese Auto Parts Industries Association (the Japanese version of MEMA) how many companies would like to build plants in the U.S. "Of course, they all said yes," Creamer said. "It was like asking little kids how many want ice cream."

Still, Creamer says that 46 Japanese companies are already here and 60 others have some sore of facility in production. "We have a list of about 120-130 Japanese auto parts companies which will eventually build some sort of plant or distribution center."

At first, American suppliers welcomed the move to the U.S. by Japanese automakers, but it seems the Japanese also want to install the same closed shop system in the U.S. as now exists in Japan. Work at NUMMI (New United Motors Manufacturing Inc.), the Toyota-GM joint venture in Fremont, CA, supports this contention. Although the U.S. content is 50%, including labor, when it looked at materials alone, a Michigan Chamber of Commnerce study found that 1,450 parts came from Japan, and just 415 were American. The long term consequence is disastrous for the U.S. auto parts industry.

"They're going to set up a whole new industry side by side and will not buy from us," said Lee Kadrich, APAA's managing director of government affairs and international trade. "Our state governors are spending millions of dollars to attract the Japanese. They're taking domestic firms' tax dollars to subsidize their competitors. We feel state funds should be used for state industries. A new Japanese plant is not going to yield anything in the long run because it will take from existing plants."

APAA has most recently filed public comments urging the U.S. Department of Commerce Foreign Trade Zone Board to deny Scott County's (Kentucky) application for subzone status for Toyota's Georgetown plant. The particulars serve as a good example of what APAA is talking about.

A trade subzone allows manufacturers to pay import duties based on finished cars (2.6%) rather than the higher rates applied to imported parts (about 3-8% depending on the part). Toyota will save about $41 in costs per car with subzone

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APAA

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status.

"Since Japanese car companies traditionally buy components from Japanese suppliers, sales opportunities for U.S. suppliers will be limited to generic items such as glass, carpeting, and trim," said APAA president Julian Morris. "Any jobs brought to Kentucky will displace automaking and supplier jobs elsewhere in the U.S. If we accept the promised 50% domestic content level, which we think is higher than will be realized, the plant would replace only half of the jobs lost in U.S. plants displaced by the new Toyota plant. Rather than Toyota adding jobs, there appears to be a potential for the loss of 12,000 jobs."

APAA's position is simple: curb government assistance for Japanese suppliers, and carefully review foreign trade subzone grants.

And then there's Canada. As noted above, four Asian automakers are already building plants that will produce almost half a million cars. About half of these are aimed at the U.S. market. And, more companies will surely come because the Province of Ontario has a $30 million fund to encourage foreign plants in Ontario. "Ontario is almost willing to build the plant for them," Kadrich said. "We can't do anything with Japan without dealing with Canada." In light of the influx of Japanese OE plants, APAA calls for a reevaluation of the U.S.-Canada Autopact which allows duty-free access for OE shipments. Canadians naturally oppose duties. Trade talks with Canada will start next year.

> *"Left unchecked, Japanese automakers and supplier families could control 50% of the content of all cars sold in America by 1989."*

The impact of these affairs on retailers is hard to quantify. But, as Kadrich pointed out, "It means that retailers will have no access to certain parts. Maybe half of aftermarket items for Japanese cars are made domestically. Mostly fast turn items. But there's virtually no manufacturers of hard engine parts, drivetrain parts, transmission parts, and the like. When you need a repair part, you have to go to the dealer. The end result will be retailers will be frozen out of deep parts. U.S. manufacturers have to be OE suppliers to Japanese so traditional distribution continues. In Japan, maybe 70-80% of aftermarket distributing is through dealer networks. It's a closed system. The real prize for Japanese suppliers is the U.S. aftermarket."

The presidents of the Japanese big three (Honda, Nissan, Toyota) all say they intend to aggressively pursue selling parts through their dealers in the U.S. as they do in Japan.

Creamer agreed. "The general argument is that anything that helps American manufacturers will help the retailer down the road. Will the Japanese get in the aftermarket? In Japan, you look to automakers for distribution. Here, parts makers drive the aftermarket. But in Japan, it's just the reverse. In Japan, it's car dealers that matter. There's not a retail aftermarket as we know it."

These are the problems, but what does the U.S. do about them? The MOSS talks involve the U.S. government urging the Japanese government to do something about the trade imbalance. Some suggestions on the current round of talks are for allowing voluntary certification of American parts by U.S. suppliers, and requesting Japanese vehicle makers to list acceptable non-OE replacement parts in their service manuals.

The response from the Japanese has not been overwhelming, according to participants, and there's a lot of suspicion they don't want to do anything. From

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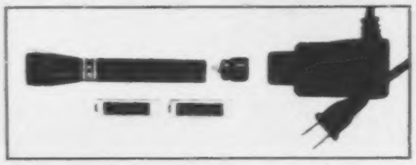

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their point of view, why should they? They have a thriving auto parts industry.

Still, APAA's Morris (who is chairman of a MOSS advisory task group) is "quite guardedly optimistic about results of the MOSS talks." The hope is that the Japanese are politically astute enough to realize that the talks must have some positive result. Otherwise, the U.S. government will be forced to act. "If nothing is done through MOSS," Creamer said, "Congress will do something eventually. They could jack up tariffs, or put on strict quotas. The fact the Democrats did well in the elections should make the Japanese nervous." Creamer noted the 25% tariff on light trucks did save the U.S. light truck industry.

Although it supports the MOSS talks (MEMA president Bill Raftery serves as an industry advisor), MEMA took a further step by opening an office in Tokyo. The Tokyo office will allow MEMA to work closer with its Japanese counterparts to give MEMA members better access to Japanese OE automakers.

So that's where we're at—right back where we started from. ■

PROFILE

The Pik.A.Nut System

"The DIY customer will come in with the used automotive hardware product already in his hand," says Bill Chope, president of Pik.A.Nut Corp., Huntington, IN. "What he needs then is to identify the product itself and the size, length, thickness, and type of thread."

Chope makes the point that with automotive hardware, obviously a needed but certainly not a high turn or high ticket item, it's important for both consumer and retailer to have self-service products. "It's good for the retailer since it saves store personnel time, and it's reassuring for the customer," he said.

According to the Pik.A.Nut president, it's very important for retailers to be able to planogram as much product in as little space as possible because of the profit potential of hardware.

Pik.A.Nut, now with 30% of its business in retail, uses the same "one price" system it used when founded as Hunckler Products Inc. 26 years ago. The item count varies among the products. "We're also proud of our virtually resealable plastic packaging," he said, "because it lets the retailer sell a package that a consumer may have opened. And, because the consumer buying our product can use one piece and reseal the package so that the remaining pieces won't fall out and 'lose their identities'." ■

Market Changes: Bendix And Brake-Pro

We recently spoke with Marty Barrett, newly named vice president of Brake-Pro Systems, and Ron Miskelley, manager of Friction Products at the Allied Aftermarket Division, about changes at their companies.

Brake-Pro is a new name in the brake market, but Barrett is an old hand in it. Tenneco Automotive brought him over from Wagner when it decided to go into the brake market. "The size of the market alone got Tenneco interested," Barrett said. "The brake market's about $1.1 to $1.2 billion. There are many slow growth lines in automotive today, but brakes continue to grow. The increasing number of vehicles on the road, and the increase in miles driven help the market. We see 2-3% real growth annually."

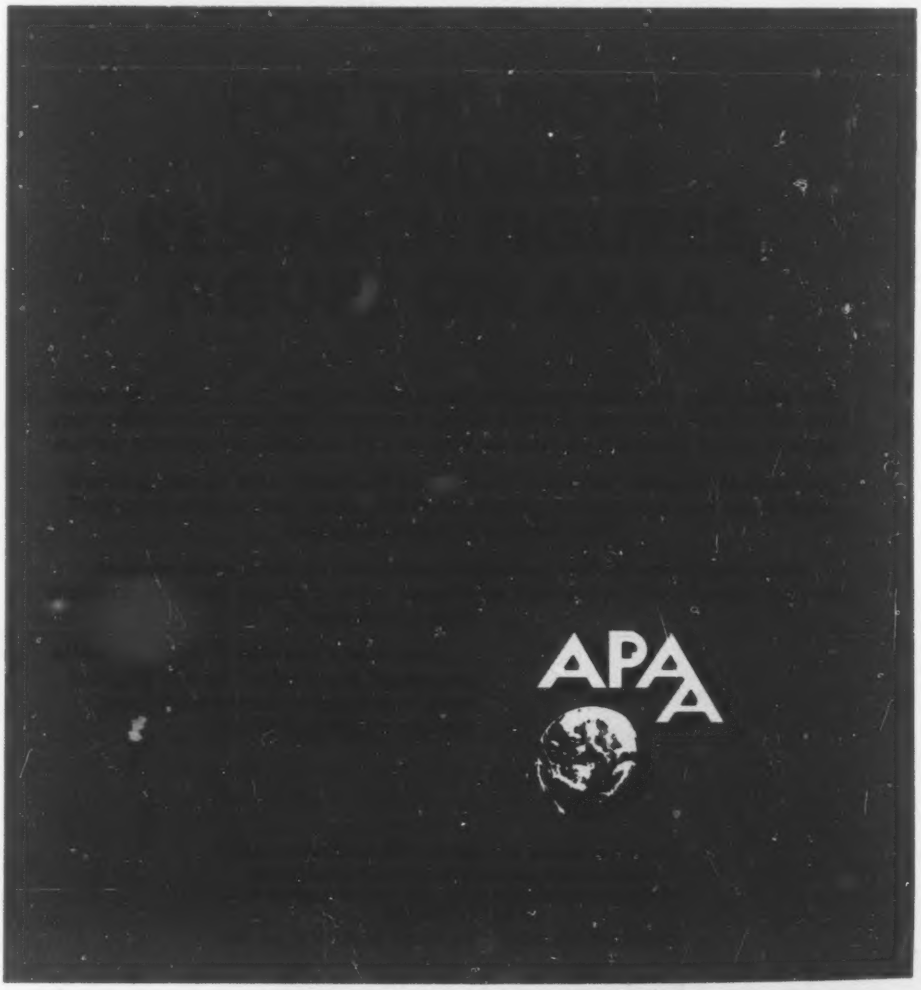
Another attraction, Barrett feels, is the lack of a dominant leader in the brake field, unlike how Monroe and Walker enjoy leadership in ride control and exhaust, respectively. At the consumer level, there's Bendix, which enjoys some brand awareness, while Wagner, EIS, and Raybestos are well known among professionals.

The brake market is primarily a service market. Estimates of DIY activity range from about 10% to 35%, depending on whom you ask and what kind of brake work you're talking about. This leaves the service side with a preponderance of the work. Based on several estimates, we think it breaks out like this:

• Garages	29%
• Gas stations	24%
• Car dealers	19%
• Tire stores	11%
• Specialty shops	8%
• Mass merchandisers	6%
• Auto chain Stores	3%

As Barrett said, "It's a complicated market and it's getting more so." However, the one specialty segment that's growing is the specialty installer. This means primarily Midas, Meineke, and Speedy, all of which began as specialty exhaust shops but have added ride control and brakes in recent years. (For a detailed examination of this market, see Ed Kaufman's piece in our September 1986 issue).

Barrett sees the specialty installer segment's growth at about 8% a year, or almost three times the pace of the brake



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market as a whole. "The channel shift is similar to exhaust and ride control eight or ten years ago. Consumers want convenience and speed. So we have a natural in to the market through Speedy Muffler and Car-X shops. We've been servicing Speedy since May 1. We allow them to emphasize the retail side, while we assist with inventory control and buying."

The Brake-Pro program will have about 1,500 SKUs, which Barrett said will cover about 95% of the market. Brake-Pro will not get into manufacturing its own parts for the present. "We're still finding our sourcing base," Barrett said. "We need OE fit and function standards. Right now, we have ten sources, but I expect that to expand. We'll probably source a fair amount from overseas. Tenneco is active in Europe and the Far East. Maybe as much as half our sources will be overseas."

Although no one is looking beyond a solid program for Speedy and Car-X, Barrett did not rule that out. "If we are successful, the same program will make sense to other independent installers. There's no problem with our commitment. It only makes sense for us to become more knowledgeable. If we see the opportunity to expand vertically (into manufacturing) or horizontally (beyond Speedy and Car-X), we'll keep our ears, noses, and pulse to the ground."

At Allied, the news is not quite as dramatic as a new company, but it's just as important for Allied's Bendix brake business. About 70% of replacement brake shoes sold today are relined rather than new. Starting next month, Bendix will offer branded relined brake shoes for the first time.

"Before we sold friction material to rebuilders," Miskelley said, "but never offered our own line of relined shoes. Under our new concept, we'll offer both new and relined shoes at all levels of the market."

Miskelley feels that under Allied, Bendix is able to offer a much stronger package to retailers. "We have a national, uniform marketing program. At the retail level you can buy Bendix, Fram, and Autolite as a package. It's a one-buy buy. Retailers can combine shipments, volume discounts, co-op advertising, promotional funds, and centralized customer service."

There're about 175 SKUs in the line. "Look at the car/life cycle," Miskelley said. "Figure a 13-year cycle. The first two or three years, the owner only wants new shoes. In the middle years, he might go for relined, but older cars are definitely all relined. Obviously, we're going to protect our accounts from too many numbers. A retailer can get good coverage with 25-30 numbers and maybe ten more in disc pads. We haven't yet put together a planogram."

Bendix has selected ten rebuilders as sources for Bendix relined brake shoes. The rebuilders will reline to Bendix standards. The line will carry a three-year, 36,000 mile warranty. ■

New Cars Slow Demand For Replacement Parts

The physical demand for automotive replacement parts will decrease by 2% when the totals for 1986 are all in, according to Automotive Consulting Services (ACS) Ltd., a service of Easton Consultants Inc., Hopkinton, MA.

ACS cites strong new car sales as the "root cause" of the decrease. ACS bases its projection on its own REAL Aftermarket Demand Index which tracks trends in aftermarket physical demand.

"This prediction of slowed physical demand represents a continuation of the sluggishness the aftermarket has experienced since demand peaked in 1984," said Henry P. Allessio, a partner in ACS.

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MARKET LINE

"The periods of 1977-78 and 1985-86, with peak new car sales, experienced the start of generally soft demand; 1981-82 had slow new car sales but carried with it a resurgence of aftermarket demand which continued through 1984."

Gregory Macosko, a partner in ACS, explains that the ACS index includes the expanding number of units of cars in operation (UIO), units increasing in average age. But older cars do not necessarily translate to replacement part demand. "It is the mix of vehicles by age that is important. Newer cars do not consume a high proportion of replacement parts, nor do cars older than 10 years. The latter category is the fastest growing segment of the car population," he said.

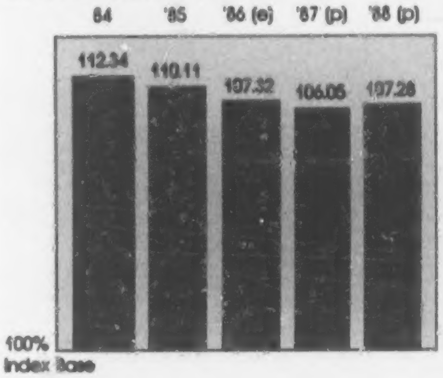
While other analysts predict a replacement parts demand turnaround in 1987, ACS suggests that the turnaround will happen in 1988, according to Allessio. ACS projects UIO growth of about 1.4% per year between 1986 and 1988, but the age mix, particularly in younger cars, will not shift to the higher parts consuming years until 1988.

"In the future, physical demand per car will slowly decrease, and overall aftermarket demand cycles may become somewhat more volatile as new cars entering the market probably will have lower per unit parts demand than the preceding car models," Allessio states.

The parts demand tracked by ACS does not include model mix change among cars; it represents constant consumption rates, according to ACS. This index includes only passenger cars. ■

PHYSICAL DEMAND OF REPLACEMENT PARTS

Since the peak year of 1984, the physical demand for replacement parts in the aftermarket has declined. In this chart, with an index base of 100, 1984 is the peak year for replacement parts demand with a rating of 112.34. In 1987, the trend is expected to bottom-out with a rating of 106.05. A a slight increase is expected in 1988.



P = projected
E = estimated

Source: Automotive Consulting Services (ACS) Ltd.

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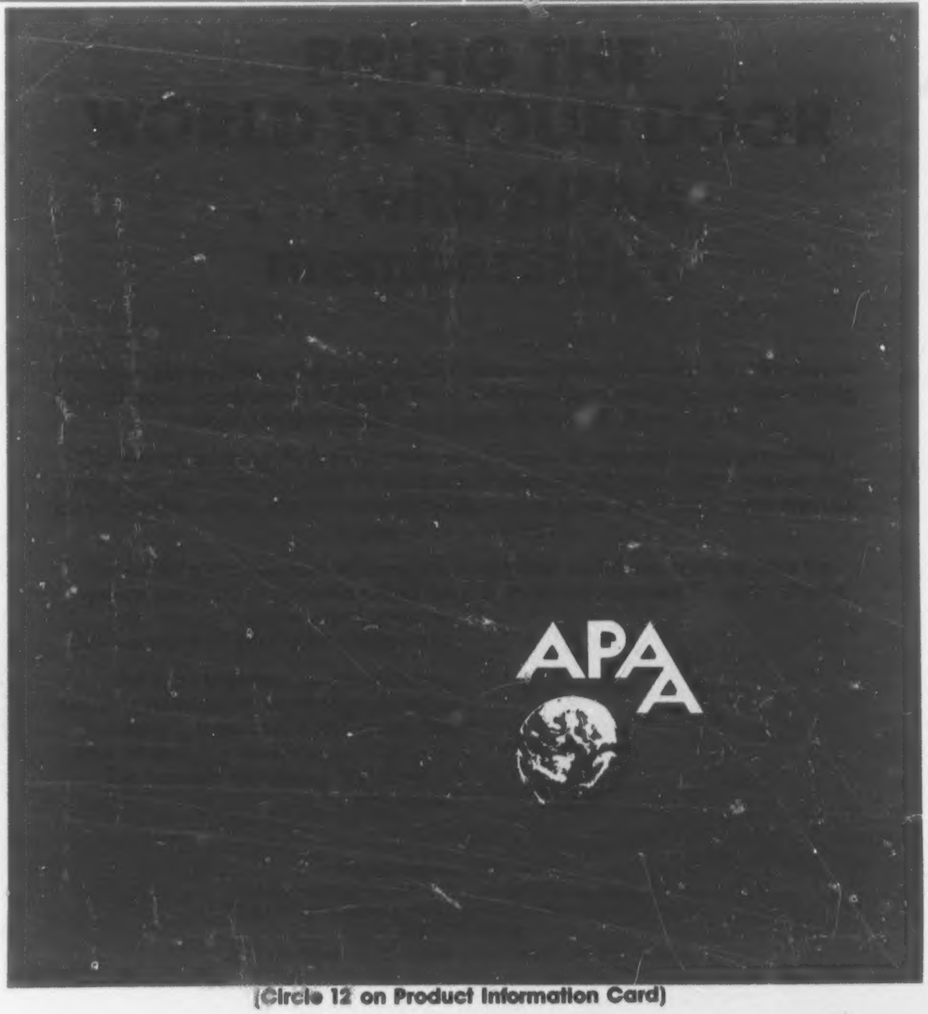

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AUTOMOTIVE MARKETING

The Marketing/Business Magazine for the Retail Aftermarket

JANUARY 1987

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SPANISH WEST

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CONSUMER BUYING PROFILES

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January Issue/Volume 16, Number 1

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A New Look At The Old West 30
The West is not just a single, homogenous market. There are three very different markets out West. Here's a look at each of them.

Greenbelt West 35
Greenbelt DIYers own lots of foreign cars. But they don't do much serious DIY work on them.

Desert West 37
Desert West DIYers perfer light trucks, vans, and RVs to wander the wide open spaces.

Spanish West 38
Spanish West DIYers own and work on foreign cars. They are often well-educated and like DIY work.

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PUBLISHER'S NOTES

Go West, Retailers!

No Horace Greeley story this, but our January issue does look West. Read research editor Philip Katcher and senior news editor John Wirebach's analysis for new insight. We'll look at other regions in similar fashion in our Consumer Automotive Repair Study (CARS) in our March issue.

Our Western theme is timely, too. APAA's regional show activity debuts next month. The Association has planned this supplemental show in LA to attract the medium and smaller retailers in the Western markets which are home to 17% of our country's automotive do-it-yourselfers.

At the recent SEMA/AI Show, we kept hearing "mail order," so our key reporter Wirebach investigated its size and scope for Market Line. While it's not all that big compared with the total aftermarket, it's BIG! Mail order sales this year are about the equivalent of Pep Boys annual sales.

Also in this issue, you'll see another "AM first"... Detailing The Market. This unique monthly news insert gives you a quick look at what's happeling in the retail aftermarket.

And don't forget to check recent market action in our Automotive Marketing Index, and data about DIYers who buy exhaust products.

As usual, we've packed a lot of worthwhile information into our pages. We hope you like it. Let us know. ■

Sarah Frankson,
Publisher

THE AUTOMOTIVE MARKETING INDEX

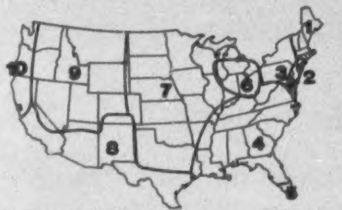
THE 1986 *AUTOMOTIVE MARKETING* MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index. The products include a non-resistor spark plug; an oil filter; a can of 10W30 motor oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

OCTOBER NATIONAL AVERAGE MARKETBASKET PRICES

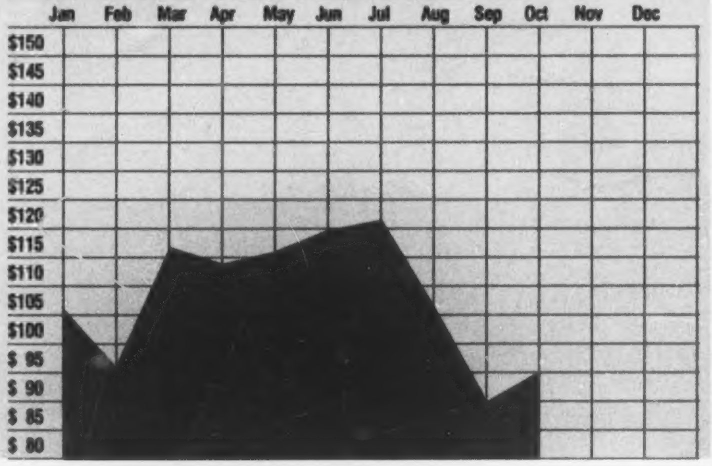
A non-resistor spark plug:	$ .73	A gas-charged shock:	$ 13.38
An oil filter:	2.04	One gallon of antifreeze:	3.23
A can of 10W30 oil:	.74	One pair of wiper refills:	2.19
A can of paste wax:	3.66	A 40-month battery:	29.42
An AM/FM Cassette:	39.56	**Total:**	**$ 94.95**

OCTOBER AM MARKETBASKET PRICES BY MARKETING AREA



		3. Smokestack East:	$ 96.57
		4. Old South:	83.95
		5. Caribbean South:	102.15
		6. Smokestack Central:	89.44
		7. Grainbelt Central:	80.47
		8. Spanish West:	93.89
1. Greenbelt East:	$107.24	9. Desert West:	94.95
2. Megapolis East:	88.55	10. Greenbelt West:	112.19

NATIONAL AVERAGE MONTHLY 1986 AFTERMARKET BASKET PRICES



AFTERMARKET BUSINESS INDICATORS

	Unit/Base	Mo/Qr	Current Period	Prior Period	Year ago, Same Period	Low (61-86)	High (61-86)
Personal Income	billion	Sept	$3,511.5	$3,500.3	$3,333.9	$403.8 (Jan 61)	$3,511.5 (Sept 86)
Personal Consumption Expenditures	billion	3Q	$2,799.3	$2,732.0	$2,627.1	328.5 (1Q 61)	2,799.3 (3Q 86)
Consumer Price Index	67 = 100	Sept	330.2	328.0	324.5	89.3 (May 61)	330.2 (Sept 86)

AMERICAN-BUILT CARS SOLD NOVEMBER 1-20

Americans bought 5.5% more U.S.-built cars in the first 20 days of November, 1986, than in the same time period last year. But the growth was largely in the middle of the month. Signs were promising for the last ten days of November, boosted by renewed dealer incentive programs designed to move cars. At the same time, car makers are cutting future production.

Maker	1-20 Nov. 1986	1-20 Nov. 1985	% Change
American Honda	14,634	7,185	50.9%
American Motors	2,240	4,600	- 47.0
Chrysler	48,750	44,180	9.4
Ford	96,823	78,484	18.9
General Motors	181,035	189,838	-4.6
Nissan	4,516	3,584	20.6
Volkswagen of America	2,456	3,425	-28.3
Total U.S. Industry	350,454	331,296	5.5

Sources: E.F. Hutton & Co., Motor Vehicle Manufacturers Association

1986 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various retail chain, manufacturer, and distributor common stocks in different stock exchanges for the 52 week period prior to December 17. Prices rebounded from the November securities exchange insider trading probes.

	Exchange	52-week High	52-week Low	12/17 Quote	P-E
Armor All	OTC	12 1/2	10 1/4	11 1/4	–
Cardis Corp.	AMEX	10	5 7/8	7 7/8	7
Champion Spark Plugs	NYSE	11 7/8	8 5/8	10 3/4	–
Crown Auto	OTC	4 1/4	3	3	–
Dana Corp.	NYSE	36 1/2	25 1/2	35 3/8	16
Durakon	OTC	18	6 1/2	12 5/8	17
Echlin	NYSE	20 5/8	13 3/4	18 7/8	17
Genuine Parts	NYSE	48 3/8	35 1/8	45	20
Lucky Stores	NYSE	37 7/8	23 1/4	30 1/4	24
Parker Hanniflin	NYSE	30 1/2	20 1/4	26 3/4	13
Pennzoil	NYSE	91	48 1/8	65 7/8	64
Pep Boys	NYSE	48 1/4	25 1/8	43 3/8	29
Perry Drugs	NYSE	20 7/8	12	12 3/4	22
Purclator	NYSE	28 1/4	15	24 3/4	–
Quaker State	NYSE	30	21 3/4	26 5/8	13
Republic Auto	OTC	10 1/4	6 5/8	7 7/8	–
Rite Aid	NYSE	35 1/2	24 1/4	30 3/8	18
Sealed Power	NYSE	31 1/4	23 1/8	26 1/2	12
Southland	NYSE	60 1/2	40 3/4	48 1/4	11
Standard Motor Parts	NYSE	20 1/8	11 5/8	18 7/8	15
TBC Corp.	OTC	14	8 3/4	11 1/2	22
Tenneco	NYSE	43 1/8	34 1/2	38 1/2	18
Trak Auto	OTC	18 3/4	11	15	375
Triad Systems	OTC	13 1/8	8 1/2	10 1/2	26

PRODUCT OF THE MONTH: MUFFLERS

Drawing from the 1986 *Automotive Marketing Consumer Automotive Repair Study*, we look at the individuals who purchased and installed mufflers during a 12-month period.

			Age					Income				Hours Per Month Spent On DIY				Number Of Cars Responsible For		
Total	Male	Female	-25	25-34	35-44	45-54	55+	-$20K	$20-30K	$30-40K	40K	-1 hr	1-5 Hrs	6-10 Hrs	11+ Hrs	1	2	3 or More
100.0%	92.5%	7.5%	26.1%	26.8%	18.6%	17.3%	11.1%	43.2%	16.4%	15.7%	15.5%	5.9%	38.5%	15.7%	35.9%	17.1%	31.8%	51.2%

APAA Los Angeles Show Ready To Go

The Automotive Parts and Accessories Association (APAA) Los Angeles Show will open Thursday, February 12, and run through Saturday, February 14, at the Los Angeles Convention Center. At press time, 158 companies had signed up for booth space.

Merle Krantzman of Grand Auto, Oakland, chairman of the show committee, said, "This is certainly going to be a little guy's show. There're a lot of little retail operations within 400 miles of L.A. This is the perfect forum for them to meet and talk with national manufacturers."

APAA L.A. will be a no-frills show, Krantzman said. "It will still have all the amenities and services to make it easy to do business. But there'll be no big dinner and expensive features like that."

A "Retailing Open Forum" on Friday, February 13, at 8:30 am, is aimed at small retailers, according to Merv York, president of U-Save Auto Parts Stores in Los Angeles, who's busy putting it together. York said, "I'm moderating, but I haven't come up with the exact topic yet. The theme will be something like, how is the little guy going to be able to survive in a time of intensive competition?"

The L.A. Show will also serve as a test to determine the viability of regional shows. APAA will survey attendees about their feelings on this issue. ■

Big 'I' Seeks More Retail Buyer Show Attendance

Ernie N. Robinson, 1987 Joint Operating Committee chairman for the Big "I" Show in Atlanta next March 10-12, said the open show concept will involve a "vigorous" pursuit of retailer and chain store buyers.

Retailer attendance was 446 at the 1986 show. "With the growth of the hard parts segment in retailer sales," Robinson said, "we know the Big 'I' has more to offer the retailer buyer. The show has been open to manufacturers from across the industry for some time. The range of products, including truck parts and accessories, clearly matches retailer needs, and our exhibitors are working hard to serve them."

The 1987 show attendance program includes the distribution of pre-registration forms for customers. "They have always been able to do this," Robinson said, "but they have never been directly encouraged to do so. This year, we intend to make it easier." ■

MORE OLD CARS ON THE ROAD

Are we making better cars or do people have less money to buy new cars? In 1970, according to the Motor Vehicle Manufacturers Association (MVMA), only 9.4 million cars or 11.6% of the cars on the road were over 10 years old. By 1985, these numbers had almost tripled to 31 million or 27% of the cars on the road.

Date	Number Of Cars 10 Yrs. Old & Older (add 000)	Cars 10 Yrs. Or Older On The Road
1970	9,393	11.6%
1975	14,649	15.3%
1980	21,439	20.5%
1985	30,977	27.0%

TAIPEI AUTO & MOTORCYCLE SHOW

MAY 21 ~ 25, 1987
9:00 a.m. ~ 5:00 p.m.

Looking for new products and suppliers of auto and motorcycle parts and accessories? This is one trade show that must be included on your travel schedule.

Taiwan is now emerging as an important supply source for the worldwide automotive and motorcycle industries — both for OEM and after-market buyers. More than 210 Taiwan export companies are expected to display their products at what has become Asia's largest trade exhibition of its kind.

Besides the exhibition, you are also invited to visit the Export Mart in the same building. Some 37 of the permanent showrooms on the 4th floor are devoted to auto and motorcycle products.

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china external trade development council
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The Marketing/Business Magazine for the Retail Aftermarket FEBRUARY 1987

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- BRAKE SERVICE
- DETAILING THE MARKET
- PROFILE: STEEL CITY PRODUCTS
- DIRECT PRODUCT PROFIT ANALYSIS
- SPRING/SUMMER MERCHANDISE IDEABOOK

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The aftermarket as we know it is changing. And it will never be the same. Are you ready to compete—and win—in this new arena? Here's what's going on.

Spring/Summer Selling And Merchandising Guide 47
The Spring/Summer season is a good time to sell various aftermarket products such as oil, filters, accessories, and other items. Here's what will be hot this year.

Management 1987: DPP 55
Direct Product Profit (DPP) is a new way of looking at your profit picture. Other stores are already using it.

Profile: Steel City Products 60
This 40 year-old feeder is a survivor in a field that is steadily shrinking. Here's what makes it strong.

Service Report: Get Ready For High-Tech Brakes 64
Service operators who were not happy when disc brakes came along are not going to be pleased with the new high-tech systems. But there will be profit opportunities.

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PUBLISHER'S NOTES

RETAIL CYCLES

"What goes around comes around." This is not one of my family sayings, but true nonetheless.

This month, we investigate several cyclical topics, among them the merging of the marketplace and its evolution back to some of its original practices. There's a lot new in the aftermarket, too, according to senior news and features editor John Wirebach.

In another cycle, it's time to think Spring again. Contributing editor Ed Kaufman talked with retailers and suppliers to garner their thoughts, and plans, for the season, a season with possibilities for increased sales of DIY products.

To those thoughts, we've added merchandising opportunities for you in our semi-annual Merchandise Ideabook. You'll see some of these new items and sales tools at next month's Big "I" Show in Atlanta. Our merchandising feature page gives you some how-tos on bulk displays.

Steel City Products is a survivor of 40 years at the tough feeder level. Read how Bernie Frank's operation has done it all these years in our profile.

We've got it all for you. Check it out! (That IS a family saying.) Let us hear from you. ■

Sarah Frankson
Publisher

THE AUTOMOTIVE MARKETING INDEX

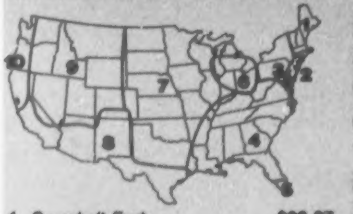
THE 1986-87 *AUTOMOTIVE MARKETING* MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index. The products include a non-resistor spark plug; an oil filter; a can of 10W30 motor oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

NOVEMBER 1986 NATIONAL AVERAGE MARKETBASKET PRICES

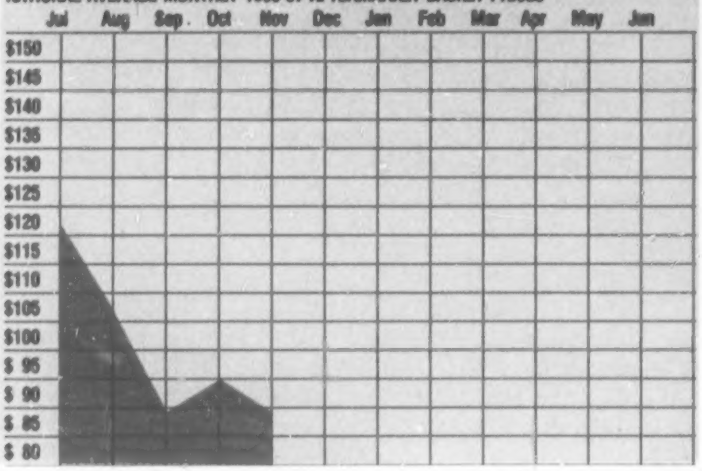
A non-resistor spark plug:	$ .65	A gas-charged shock:	$ 13.77
An oil filter:	1.89	One gallon of antifreeze:	2.74
A can of 10W30 oil:	.70	One pair of wiper refills:	1.89
A can of paste wax:	3.54	A 40-month battery:	29.85
An AM/FM/Cassette:	33.97	Total:	$ 89.00

NOVEMBER AM MARKETBASKET PRICES BY MARKETING AREA



1. Greenbelt East:	$96.97
2. Megapolis East:	83.78
3. Smokestack East:	$ 90.06
4. Old South:	84.96
5. Caribbean South:	102.21
6. Smokestack Central:	90.06
7. Grainbelt Central:	90.13
8. Spanish West:	100.20
9. Desert West:	85.09
10. Greenbelt West:	76.30

NATIONAL AVERAGE MONTHLY 1986-87 AFTERMARKET BASKET PRICES



AFTERMARKET BUSINESS INDICATORS

	Unit/Base	Mo/Qr	Current Period	Prior Period	Year Ago, Same Period	Low (61-86)	High (61-86)
Personal Income	billion	Oct	$3,524.3	$3,511.6	$3,358.3	$403.8 (Jan 61)	$3,524.3 (Oct 86)
Personal Consumption Expenditures	billion	3Q	$2,799.3	$2,732.0	$2,627.1	328.5 (1Q 61)	2,799.3 (3Q 86)
Consumer Price Index	67 100	Sept	330.2	328.0	324.5	89.3 (May 61)	330.2 (Sept 86)

AMERICAN-BUILT CARS SOLD IN 1986

American-made car sales for December 1986 finished the year up 16% higher than December 1985, for a year that showed overall growth. Ford, Chrysler, and American Honda were December's big winners. For the year, however, Ford sales dropped slightly, as did General Motors. And American Motors continued to bleed. But Japanese nameplate cars did well in 1986.

Maker	1986	1985	% Change
American Honda	235,247	145,976	61.2%
American Motors	75,853	123,449	-41.0
Chrysler	1,173,463	1,139,936	2.9
Ford	2,066,507	2,070,392	-2.9
General Motors	4,532,798	4,607,458	-1.6
Nissan	52,602	39,794	32.2
Volkswagen of America	73,912	77,535	-4.7
Total U.S. Industry	8,214,663	8,204,540	0.1

Sources: E.F. Hutton & Co., Motor Vehicle Manufacturers Association

1987 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various retail chain, manufacturer, and distributor common stocks in different stock exchanges for the 52 week period prior to January 16.

	Exchange	52-week High	52-week Low	1/16 Quote	P-E
Armor All	OTC	15 1/4	14 3/4	15 1/8	—
Cardis Corp.	AMEX	10	5 7/8	8 3/8	8
Champ Parts	OTC	11	3 1/2	9	56
Champ Spk Plg	NYSE	11 7/8	8 5/8	11 1/2	—
Crown Auto	OTC	4 1/4	3	3	—
Dana Corp.	NYSE	36 1/2	25 1/2	34 3/4	16
Duralcon	OTC	18	6 1/2	11 3/4	16
Echlin	NYSE	23 1/8	15 1/8	22 3/8	19
Genuine Parts	NYSE	48 3/8	36	48	21
Lucky Stores	NYSE	37 7/8	23 1/4	26 3/8	36
Prkr Hannfin	NYSE	32 3/4	20 1/4	32 3/8	16
Pennzoil	NYSE	77 3/8	48 1/8	69 1/8	67
Pep Boys	NYSE	48 1/4	25 1/8	46 7/8	32
Perry Drugs	NYSE	20 7/8	12	14	24
Purolator	NYSE	28 7/8	15	28 3/8	—
Quaker State	NYSE	30	23	27	13
Republic Auto	OTC	10	6 5/8	8 1/4	—
Rite Aid	NYSE	35 1/2	24 1/4	34 5/8	19
Sealed Power	NYSE	31 1/4	23 1/8	29 7/8	13
Southland	NYSE	60 1/2	40 3/4	46 1/2	11
Stan Mtr Prod	NYSE	23 5/8	12 1/2	23 3/4	18
Supr ind	AMEX	16 3/8	9 1/2	13 1/2	10
TBC Corp.	OTC	15 1/4	8 3/4	14 1/4	25
Tenneco	NYSE	43 1/8	34 1/2	40 1/4	19
Trak Auto	OTC	18 3/4	11	14 1/2	363
Triad Systems	OTC	13 1/8	8 1/2	11 3/8	28

PRODUCT OF THE MONTH: SPRAY PAINT

Drawing from the 1986 *Automotive Marketing Consumer Automotive Repair Study*, we look at the individuals who purchased and installed spray paint during a 12-month period.

			Age					Income				Hours Per Month Spent On DIY				Number Of Cars Responsible For		
Total	Male	Female	-25	25-34	35-44	45-54	55 +	-$20K	$20-30K	$30-40K	40K	-1 hr	1-5 Hrs	6-10 Hrs	11 + Hrs	1	2	3 or More
100.0%	88.0%	12.0%	24.0%	32.0%	8.0%	18.0%	18.0%	34.0%	24.0%	16.0%	16.0%	10.0%	42.0%	24.0%	22.0%	32.0%	34.0%	34.0%

MARKET LINE

MAIL ORDER MARKET

Mail Order Automotive Sales: $400 Million And Growing.

Mail order sales in general are enjoying boom times. About 60,000 companies sell some kind of mail order product or service. Arnold Fishman, president of Marketing Logistics, Deerfield, IL, estimates mail order makes up 2.6% of all retail sales. Americans spent about $248 apiece for mail order products in 1985.

"The total mail order market is about $38.5 billion in merchandise," Fishman told us. "About $26.8 billion in specialty merchandise; and $11.7 billion in general merchandise. That's the reverse of 20 years ago. Now specialty is the most important segment." Fishman noted there is also a $20.2 billion market for mail order services.

Fishman put the automotive mail order market at $390 million in 1985, but automotive/aviation mail order sales are combined as one category in his calculations. He lists 320 companies in the category.

Brad Highum, a consultant with Maxwell Sroge Inc., Colorado Springs, CO, puts automotive mail order sales slightly lower: about $375 million in 1985. "We list 165-170 companies selling automotive," Highum noted. "Automotive is not the largest segment, but we see fairly respectable growth in the segment: about 8-9%. General mail order growth has been about 12-13% for the past three years."

Highum said the emphasis in mail order today is on segmentation and specialization. "The trend is away from general merchandise. There's a failure in the general catalogs to respond to the needs of customers."

Modern mail order sales began with Aaron Montgomery Ward, a peddler in the Midwest after the Civil War. Ward observed the limitations of the general stores that dotted the Midwest: few SKUs, high prices. Working in a Chicago loft, with $1,600 in capital, Ward produced his first catalog—a single page with 163 items—in 1872. Ward worked with the National Grange to push his catalog to farmers as "The Original Wholesale Grange Supply House." By the 1880s, the Ward Catalog was 240 pages thick with thousands of items.

The Sears catalog began when a Minnesota railroad man named Richard Warren Sears began offering watches by mail with the help of job-printer Alvah Curtis Roebuck in 1886. Astute advertising soon allowed Sears to overtake Ward in sales, and by 1907 Sears was mailing three million catalogs with sales over $1 million.

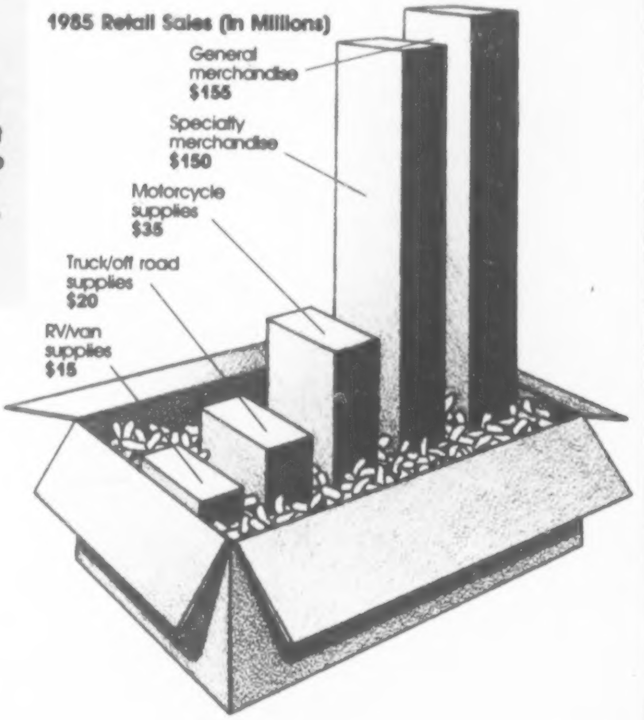
Ward's and Sears were soon followed by J.C. Penney and Spiegel, and the companies became the big four in mail order sales. Although Ward's and Sears both opened stores in the 1920s, catalog sales continued to claim about 20% of Sears and Ward's annual total sales. In 1985, Sears was still the number one catalog merchant with catalog sales of $2.83 billion in 1984 and $2.80 billion in 1985.

In 1984, Ward's took a dramatic step by publishing a free-standing "Auto Express Catalog" of 95,000 SKUs in four areas: performance, import parts, domestic parts, and accessories. Tires, batteries, and accessories were shipped from Montgomery Ward warehouses, while the rest came from participating WDs around the country.

At that time, catalog sales amounted to about 15% of Ward's automotive sales. Whether the giant catalog would have been a success or failure will never be known. One of the participating WDs told us the automotive catalog was "doing as much business as Ward's had forecast. We were just in one quarter of the book and we received 10,000 orders last year." But a new management team led by Bernard Brennan, who was brought in by Mobil Oil Co., Ward's parent company, closed the catalog operation, and announced a new store concept. While figures for automotive alone are a Ward's secret, in 1984, its last full year, Ward's general catalog did $930 million in sales.

AUTOMOTIVE MAIL ORDER SALES BY CATEGORY: 1986

Although the sale of general merchandise is still the largest single category in automotive mail order, the trend is away from general merchandise to specialty products for cars and other vehicles.



Source: Marketing Logistics Inc. and *Automotive Marketing* estimates.

MARKET LINE

The leader in automotive mail sales (aside from Sears) is J.C. Whitney, a general mail order automotive WD out of Chicago since 1915, with a 250-page catalog (estimated sales: $90 million). However, the fastest growing mail order companies are specialty houses such as Beverly Hills Motor Accessories and PAW (Performance At Wholesale), Los Angeles.

"The generalists sell on price, the specialists sell on scarcity," Highum noted. "What the specialty houses have is a product line, and access to lists. Price is not terribly important to their customers. They sell brand names so customers are not dealing with unknown manufacturers. It's competition based on a known product quality. And they have very low overhead. The only expense is advertising and buying product."

The mail order specialist picks out a very small segment of the market. Some of the most successful sell Corvette parts, parts for 1955-57 Chevrolets, or Mustang parts. "You can't have a successful Corvette store in a small town," Highum said, "but you can target direct mail to owners, and pull from a bigger customer base."

For example, Tommy Johnson, a racer from Ottumwa, IA, specializes in safety equipment for race cars: jackets, safety harnesses, parachutes. "We started by accident," Johnson told us. "Iowa's pretty centralized. There's only one state paper, *The Des Moines Register*. I run a little performance store and we had some used parts I wanted to get rid of. We got a good response. So I ran another, and put new parts in it. Pretty soon I called up the phone company and got a Watts line." Johnson reaches his clientele through drag race papers and magazines. His name helps. "People see me at races. I write a little column of BS in some of the papers."

Johnson says he carries a tiny inventory—maybe $50,000. "I have a wholesaler who takes care of me. He shoots it in in one day. So I have access to a large inventory without carrying any. I'm like his outside salesman." But Johnson thinks the automotive business is going away from mail order. "Ads are just too high priced. The competition hurts. There're too many people in it."

We also spoke with one of the most successful specialized mail order houses. Andrew Cohen, president of Beverly Hills Motor Accessories, said he'd started by buying a NAPA store in 1974. "In 1976, we started selling mail order, and we sold the store in 1978." Cohen agreed that price is not terribly important to his business. "Our customers are higher income customers. They're professionals; they don't have time to shop. We appeal to maybe only 2% of the population, but it's a wealthy 2%. All they care about is quality and service."

Service and selection are the key, Cohen said. Beverly Hills stocks 5,000 SKUs. "There're always new items, new fads. We do well with protection items like bras and car covers. Virtually anything cosmetic. I have a lot of things you can't

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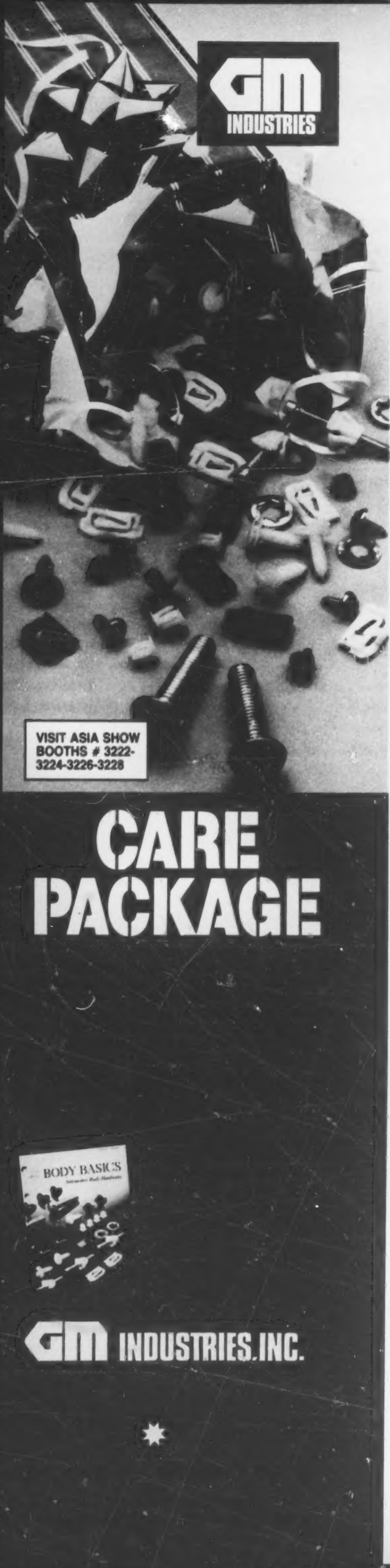
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get, even performance shops don't carry them. We get things made just for us; some are exclusives. For example, we stock the only 100% cotton car covers." Shipments are next day UPS in most cases. "Two weeks at most if we don't stock it in the warehouse. There is a certain percentage drop shipped direct from the factory like personalized mats made to order."

Cohen says lists don't work, at least for him. "We don't have luck with lists. For one thing, 60% of our customers have a Mercedes, and the percentage of Mercedes owners is pretty small. Then, if you buy it, you don't know if the list has mail order buyers on it. The lists are old. Some of the names on them are leasing companies and they never get to the customer.

"For us, it's mostly space ads. Lists don't work. Business is exclusively through advertising. We spend a million a year on ads. To begin running ads is a three or four million dollar investment. That keeps a lot of people out of the business. An ad in (one of the biggest consumer automotive magazines) runs $14,000 a month. That's four times what it was when we started. The number of mail order houses there is diminishing."

Advertising has worked well for Beverly Hills. Estimates of its sales are about $23 million. Cohen said the number was in the ball park.

On the other hand, ads were not effective for Moving Parts Inc., of Portland, OR, a specialty mail order house for European car accessories. Blake Middleton said they tried a few in *Road and Track* and *Porsche Panorama* when they started in 1984. "Space advertising hasn't been our bread-and-butter. It's very expensive. We buy lists from list brokers. Some are good and some bad. You don't open up the door and make money. You have to build up your list."

Moving Parts is on its third catalog and sends out about 45,000 copies. Middleton thinks the next catalog might reach 100,000. Although lists are closely guarded secrets for mail order firms, Middleton offered some suggestions. "A better customer is the mail order buyer. We buy lists of people who've bought from catalogs before, rather than lists of owners. We tried a list of 300 new Porsche owners from the state as an experiment. We haven't gotten three calls from it."

The key to success is service, Middleton said. "The customer is the only source of income. You've got to treat him right." For starters, he answers the phone himself. "You have to avoid having a boiler room full of operators who know absolutely nothing about the product. No matter how big we get, I'll still answer the phone."

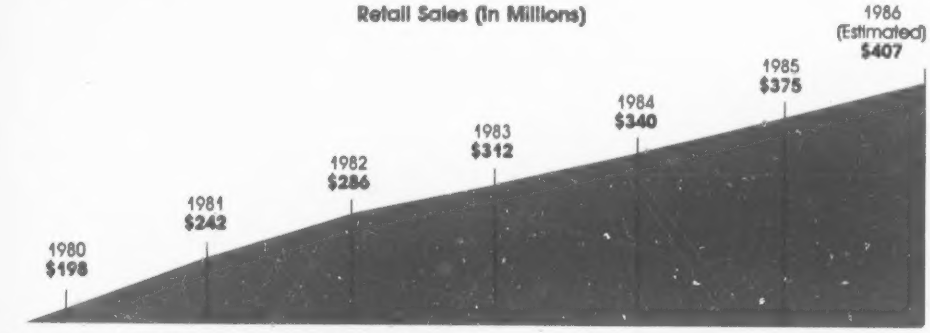
Since the mail order houses have lower overheads than full-line WDs (the major items are warehousing and advertising), they are able to sell below jobber costs on most items. Mail order analysts say costs (besides product purchases) run about 20% of gross sales. This, of course, infuriates jobbers, who have to deal with customers who wave mail order ads in their faces and complain about prices.

Jim Davis, president of B & M Automotive, felt compelled to respond to performance retailers' complaints when he was chairman of the Specialty Equipment Manufacturers Association (SEMA). Davis said B & M has a record of every customer who buys through mail order. "Without exception, these purchasers tend to live in rural areas which tells me they buy by mail order because there is no convenient retail store."

But, Davis said, the most important virtue of mail order was exposure. Mail order ads in consumer magazines puts performance products in front of potential customers month after month. "Reality says that the majority of those motivat-

AUTOMOTIVE MAIL ORDER SALES: 1980 – 1986

Automotive sales through mail order have just about doubled since 1980. Sales reached $375 million in 1985 and are estimated at $407 million for 1986. Nearly 170 firms sell some type of automotive product through mail order. The category is expected to grow by 8-9% yearly through the 1980s.



Source: Maxwell Scoge Inc. and *Automotive Marketing* estimates ed to buy will end up plunking their money down at the local retail counter. Why? It's convenient. They can talk directly to someone who is knowledgeable. If they get the wrong piece or if it doesn't fit, they can return it easily."

In the recent SEMA performance market study, SEMA manufacturers said mail order accounts for about 12% of their business.

What's the future of mail order sales? All the signs are good for the specialist, not so good for the generalist. Nile Cornelison of Direct Communications Marketing Inc., Creston, IA, put the case for the specialist nicely, "Lifestyles are changing. There're more two wage earner families and less time to shop. Shopping at home is a convenience, especially for unique specialized products that are less available in retail environments. Baby boomers are interested in things not available in most stores. The price of their toys goes up. Small town America is getting a little smaller and losing its businesses. Small town stores no longer offer good/better/best; now it's good and better. The mail order house sell name brands so confidence is good. I can only see mail order going up. They're filling a need."

And the generalist? "I'm not going to predict doom for the generalists," Highum said, "they've been around a long time. They specialize in discount; they've carved out a position. There's enough of a market for them. They hold a price advantage over the auto stores."

So it looks as though retailers would do well to be ready to deal with mail order competitors for a long while. ■

ASIA Meeting/BIG 'I' United For Progress

The traditional aftermarket will gather in Atlanta's Hyatt Regency Hotel from March 7-10 to attend the Automotive Service Industry Association (ASIA) Convention, and then view the 54th Annual Big "I" (International Automotive Aftermarket) Show which runs from March 10-12 at the Georgia World Congress Center.

The Big "I" Show is sponsored by ASIA and the Motor & Equipment Manufacturers Association (MEMA), and operated by a Joint Operating Committee from the two organizations.

Featured speakers at this year's ASIA Convention Sessions are Lloyd Reuss (General Motors) and Larry McCurdy (Moog). The keynote speaker is Mike Vance, described as an expert in "creative thinking." Ex-Pittsburgh Steeler running back Rocky Bleier will address the ASIA Awards Dinner.

About 30,000 aftermarket people are expected to attend the Big "I" – including an increased number of retailers. ■

1987 ASIA NATIONAL CONVENTION
BIG "I" SHOW
ATLANTA, MARCH 7-12, 1987
HYATT REGENCY HOTEL/GEORGIA WORLD CONGRESS CENTER
SCHEDULE

SATURDAY, MARCH 7	
4:30 pm:	ASIA Chairman's Reception
6:30 pm:	ASIA Young Executives Forum Dinner/Dance
SUNDAY, MARCH 8	
7:30 am:	ASIA WD Div. Management Breakfast Conference
8:00 am:	ASIA Remanufacturers Div. Breakfast Mtg.
8:30 am:	ASIA Wholesalers Div. Management Conference
1:00 pm:	First General Convention Session
1:00 pm:	ASIA PBE Div. Management Conference
7:00 pm:	ASIA Industry Dinner/Dance & Show
MONDAY, MARCH 9	
7:00 am:	ASIA Prayer Breakfast
7:00 am:	ASIA PBE Div. Executive Committee Mtg.
7:30 am:	ASIA Manufacturers' Reps Div. Breakfast
8:30 am:	MEMA/AWDA Joint Conferences & Luncheon (Marriott Marquis)
8:45 am:	ASIA Convention In-Depth Sessions
11:45 am:	ASIA Awards Luncheon
2:30 pm:	Second General Convention Session
5:30 pm:	OAC President's Reception (Atlanta Hilton)
7:00 pm:	MEMA Industry Banquet
TUESDAY, MARCH 10	
7:00 am:	Northwood Institute Breakfast
9:00 am:	1987 Big "I" Show (Open until 5:00 pm)
9:30 am:	ASIA Ladies Day Program (Leaves Hyatt Regency)
11:00 am:	Pioneer Luncheon (Georgia World Congress Center)
WEDNESDAY, MARCH 11	
8:00 am:	OAC Seminar, "Selling Latin American Markets." (Congress Center)
9:00 am:	1987 Big "I" Show (Open until 5:00 pm)
6:00 pm:	OAC Reception & Dinner (Atlanta Hilton)
THURSDAY, MARCH 12	
9:00 am:	1987 Big "I" Show (Open until 4:00 pm)

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THE MERGING MARKET

The aftermarket is changing in many ways. Those changes are here to stay. Here's what it is all about.

by **John Wirebach,** Senior News and Feature Editor

We called this article the merging market because, it seems to us, the automotive aftermarket is merging in at least two crucial ways.

First, the market is consolidating. While the number of stores continues to increase, the number of store owners remains steady or is actually declining. This is happening on both the traditional and retail sides of the market.

The second change is more subtle. Slowly but surely the traditional WD/jobber/installer channel and the retail channel are beginning to resemble one another in the way they go to market.

The traditional market has become more retail-oriented through programmed distribution. Lately, they've also found ways to apply programmed distribution to their wholesale customers. Price sheets, long a staple of the market, are, in the words of Larry Anton, consultant to Bumper to Bumper, "dying a slow, painful death." And, a growing number of WDs are going one step further and owning their own stores, becoming, in effect, jobber/retailers. On the other hand (and to a lesser extent so far), retailers are beginning to examine ways of selling wholesale.

Indeed, it looks as though it will soon be hard to tell the players without a scorecard. New NAPA and Parts Plus stores look more like Pep Boys stores than they look like traditional jobbing stores. And, a consolidating market means that a customer in, say, a Kragen store in California will be buying parts ordered through Schuck's in Seattle and owned by Northern Pacific in New York City.

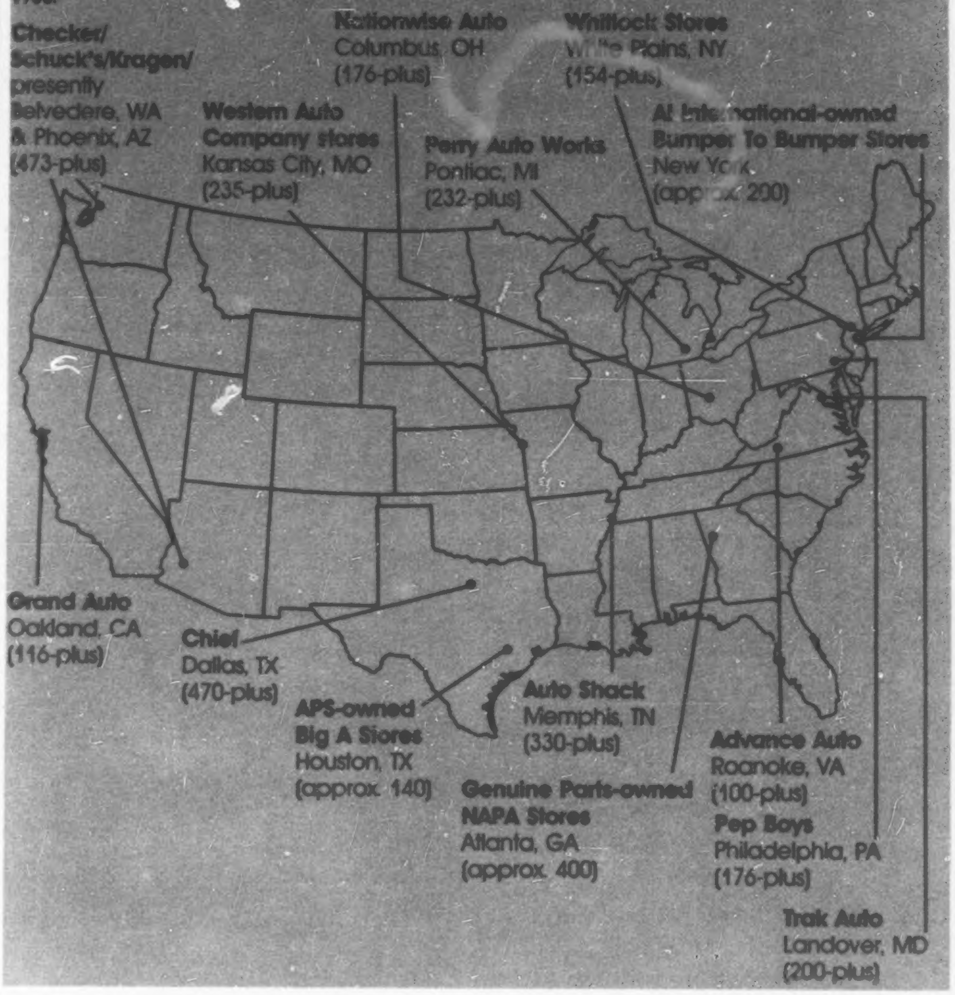
How and why did these changes occur and what do they mean to the aftermarket?

The Consolidating Market

Consolidation, acquisition, and merger are key topics in every aftermarket office, whether it be a WD or a retail chain, today. Practically every chain or WD seems to be for sale. On the retail side, there have been four major acquisitions or mergers in the past six months alone that demonstrate the rapid changes taking place in the aftermarket.

- Lucky Stores, fighting a hostile takeover, sold off its 378 Checker/Kragen auto stores to Schuck's Auto Stores, giving the combined chain 473 stores. That makes it the largest chain in the country in number of stores and takes Schuck's out of its Pacific Northwest base into 12 Western states. Schuck's itself is owned by Northern Pacific, a New York investment company.
- One of the aftermarket's oldest chains, Penn-Jersey, which has long been in financial trouble, finally conceded and sold its majority control to R&S/Strauss. R&S immediately put the 26-store Penn-Jersey chain into Chapter 11 while deciding how to handle its new property. The purchase moves R&S from its New Jersey/New York home into the Philadelphia/Baltimore/Washington metropolitan market.
- Rose Auto Stores, a 65-store Florida chain, sold out to Whitlock Corp. of White Plains, NY, which already owns

THE MERGING MARKET



THE MEGACHAINS

There are presently 14 aftermarket operations owning more than 100 automotive stores, including three with more than 400, one with more than 300, and four with more than 200. The Checker/Schuck's/Kragen/ combine and Chief, the two largest chains, should both reach 500 stores by 1988.

Checker/ Schuck's/Kragen/
presently
Belvedere, WA
& Phoenix, AZ
(473-plus)
Nationwise Auto
Columbus, OH
(176-plus)
Whitlock Stores
White Plains, NY
(154-plus)
Western Auto Company stores
Kansas City, MO
(235-plus)
Perry Auto Works
Pontiac, MI
(232-plus)
AI International-owned Bumper To Bumper Stores
New York
(approx. 200)
Grand Auto
Oakland, CA
(116-plus)
Chief
Dallas, TX
(470-plus)
APS-owned Big A Stores
Houston, TX
(approx. 140)
Auto Shack
Memphis, TN
(330-plus)
Genuine Parts-owned NAPA Stores
Atlanta, GA
(approx. 400)
Advance Auto
Roanoke, VA
(100-plus)
Pep Boys
Philadelphia, PA
(176-plus)
Trak Auto
Landover, MD
(200-plus)

89 stores in ten states. Whitlock, in turn, is owned by LCP Holding Co. of England.

- Trak Auto bought back 50% of common stock from partner Thrifty Corp. and now wholly owns the 74 Trak West auto stores they previously jointly owned. Trak Auto is now a 200-store chain, 66% of which is owned by Dart Drug.

Although all the new owners have pledged to keep the staffs in place and not change the name of their new acquisitions, at the very least, these buys remove three more buying points from the aftermarket (Trak already had the buying power for Trak West) and give the new owners substantially more buying power and economies of scale.

The Megachain

Such mergers and acquisitions have brought about the age of the megachain. By our count, there are eight chains operating more than 200 stores. Three, in fact, operate more than 400: The Checker/Schuck's/Kragen combine, Chief, and the Genuine Parts-owned NAPA stores. Auto Shack owns more than 300, Perry Drugs' Auto Works, Western Auto-owned stores, Trak Auto, and AI International-owned Bumper to Bumper stores total more than 200 each.

Except for Genuine Parts, all are owned by conglomerates that provide money and management skills . Conglomerates, most of whom were already in other forms of retailing, entered the aftermarket in force in the early 1980s. Their reasons were simple: high profits and a fragmented industry.

A good example is Perry Drugs which created a megachain virtually from scratch. Perry sold some automotive product in its drug stores as early as 1976. Vice president of corporate communications Berl Faulbaum told *Automotive Marketing* there were two reasons: "We wanted to take advantage of better margins and to attract men into our drug stores." The 35-40% margins in automotive (as opposed to 20-30% in drugs) inspired Perry to continue expanding automotive supplies. However, as late as 1982, Perry automotive sales were only $28.4 million.

In 1983, however, Perry went into automotive sales in a big way by buying a smaller chain, the 50-store Fleenor's chain in Indianapolis. The next year it added Corvairs' 47-store Ohio chain, and 25 stores in St. Louis previously owned by Lambert/Singer and Pappy's. Major acquisitions continue at Perry: just last year Perry added the 17-store Trio Auto Stores in Northern Michigan to the chain, plus several smaller independents.

Making these separate units work as one was complex and Perry officials admit it hasn't been easy to integrate four different marketing philosophies. In fact, the Fleenor management, which originally was put in charge of the Auto Works program, was replaced by Jack Gallagher and Robin Fisher, who previously ran Corvairs. Recently, the chain consolidated its warehousing and buying under one roof. Sales in 1985 were $127.1 million.

Other conglomerates have also had problems integrating automotive sales into a corporate operation. Operations such as Rite Aide Drugs (which owns the ADAP chain in New England) found the chain unprofitable until it was completely overhauled; Southland Corp. (which runs Chief Auto along with its 7-Eleven convenience stores) was on the point of selling the Chief stores before making a serious commitment to automotive; and the Lucky Stores found it had to organize a separate Automotive Division in 1982 to make the Checker/Kragen stores profitable.

The conglomerates all found that although automotive stores resemble other types of retail stores in the way they're run, they have distinct differences, and require trained automotive personnel and autonomy to be successful.

Perhaps this is the reason that none of the conglomerate retailers have had the success of the Pep Boys chain. Although only one of 14 chains operating more than 100 stores, Pep Boys is far and away the leader in sales per store. The firm's 1985 sales were $389 million and, based on its reported 39-week sales, net sales will be near $480 million this year.

One reason for their success may be *thinking things through*. The management team of CEO Benjamin Strauss and president Mitch Leibowitz took over a well-managed, debt-free company and actually closed 32 stores between 1979 and

THE MERGING MARKET

1984, weeding out non-producing stores while other firms rushed to open new stores. At the same time, it began opening new supermarket-type stores of 15,000 sq. ft. and more that put smaller competing stores to shame. The chain also made a serious commitment to its highly profitable service operation and its private label tire and battery sales. To finance the opening of 60 stores in two years, Pep Boys went public. Plans call for 35 stores in each of the next three years. Strauss and Leibowitz make no secret of their ambition to be the first national chain.

The Little Guys

Faced by conglomerates on one side and hard-working chains like Pep Boys on the other, the little guys are caught in the middle. And, as one retailer who's on the verge of selling out said, "There's lots of fallout coming. The people that don't get consolidated are going to get trampled to death by the elephants. The worst place to be is in the middle. You're too big to operate with the comfort level of a small business, and you're too small to compete at the financial level of the giants.

"The guy with two or three stores is probably in the best position," the owner said. "He's got a lot of control. And there'll always be a place in specialty retailing for the single unit independent who does a good job of merchandising for a well-defined market. He'll always be there. The guy with 25 stores can operate small, but he doesn't have the staying power. He has to be very, very good. Most guys at that size are leveraged up the wazoo. They're trying to get controls and operations in place, and they're competing against guys who've passed that point ten years ago.

"What you do in this situation really depends on your goals," was his advice. "If you want to be king of the mountain, you know what you have to do, you have to hang it out there and go. That's what all the entrepreneurial talk is all about. There comes a point when you get too big to back off. Then you have to either expand or sell out. If you don't want to sell out, you at least have to find some equity financing or a rich aunt."

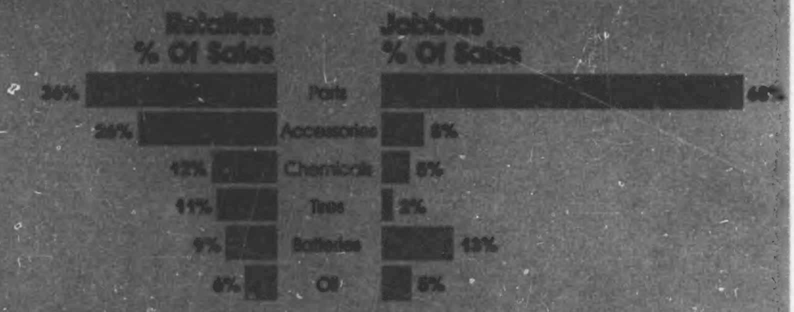
The Traditional Side

The advice from a little guy is echoed by the views of a traditional market veteran. The traditional market is still more fragmented than the retail market. There have been fewer mergers than bankruptcies. However, at the top, three of the four largest players in the traditional market are conglomerate-owned: APS Inc. (owned by Wickes); Parts Industries (owned by GKN of Great Britain) and AI International (owned by Alghanim Industries of Kuwait). Only Genuine Parts is independent.

RETAILERS AND JOBBERS

WHAT'S THE DIFFERENCE?

Although some newer jobber/retailer stores look like auto chain stores, there are still distinct differences between the two types of stores. The single most important difference is in what they sell. Roughly two-thirds of jobber sales come from parts sales, while sales of accessories/chemicals/oil amount to almost half of auto chain store sales.



- Jobbers have been in operation longer.
- Some 40% of jobbers are counter service only.
- Chain stores are open longer hours, more days.
- Chain stores average twice as many sales as jobbers.
- Jobber stores advertise much less.

Source: Frost & Sullivan; [illegible]

In addition, APS and Parts Industries are vertically integrated. That is, their corporate owners also control suppliers, including the Vera imported parts program (Wickes) and the Beck/Arnley and Worldparts imported parts programs (GKN), as well as retail operations (the Big A stores through APS and Parts Plus stores through Parts Industries). Vertical integration is a big plus for these operations, particularly in the vital import parts market, which could very well make up a quarter of total aftermarket parts sales in the next few years.

Principally because of the few big players, many feel the small, independent WD is in serious trouble. Speaking at last year's Frost & Sullivan Conference in Denver, Jack Creamer of Distribution Marketing Services noted that there were some 2,000 WDs in the mid-1960s; today, there're about 900. "The small WD in a metropolitan area is in trouble. He can't meet the margins and still grow, yet he has to cut prices to sell. AWDA's WDs have more major credit problems today than ever. The volume retailers have created real problems. If you don't believe me, read Thursday's *LA Times* Pep Boys ad and then go look at Pep Boys 42,000 sq. ft. store. You have to ask yourself: what kind of WD are you? What kind of market are you in? And, what's the competitive situation? If you're in a metro market with two or three majors there, it's crowded. The number four and five players in the market are in trouble."

From the post World War II period, when the WD/jobber/installer channel was set up, until the 1970s, the traditional market operated with no major changes. There was ensured growth through a steady rise in vehicle populations. Plus, shifts in population because of the growth of the suburbs made for easy expansion with branch stores. Then came the high interest, high inflation, fuel shortages, and the new retail players of the 1970s.

Buying In: AI International

It was about this point that Kuwait-based Alghanim Industries (AI International) took a look at the aftermarket with a desire to buy into it. A glance at its study of the traditional aftermarket, circa 1980, is very interesting. AI found three strongly capitalized, stable companies (Genuine Parts, APS, and General Automotive) doing $1.6 billion in sales; 11 small publicly held companies doing a total of $360 million in sales; and 900 or so doing between $3 to $40 million each in sales.

Interestingly, AI thought the small companies were, on the whole, in the best shape: profitable, but thinly capitalized. However, the mid-range companies were in trouble. This is how the AI study described the mid-range WDs:

- "Tried to grow too fast through excessive leverage."
- "Got caught by the pipeline filling up and interest rates."
- "Are over extended and retrenching."
- "Many are now paying 2-3% of sales in interest and returning only 1% to sales in net income."

THE MERGING MARKET

REASONS FOR ACQUISITIONS

A recent study of retailing acquisitions by Management Horizons, Columbus, OH, shows that 10.8% of all auto supply store business changed hands between 1980 and 1985. A total of 6.6% of all retail sales changed hands in the same period. Acquisitions can contribute to marketing objectives in eight ways illustrated by a matrix developed by Management Horizons.

	GEOGRAPHIC MARKET	PRODUCT OFFERING	CUSTOMER SEGMENT	FORMAT
Intensification/ Extension				
Diversification				

Source: Management Horizons, [illegible] Automotive Marketing

- "Had total sales of $362 million in 1980; down 3.5% from 1979."

The lack of any consolidation and the poor financial status of many WDs convinced AI to invest in the aftermarket. Starting in July, 1982, AI bought 20 WDs, 200-plus owned stores, 15 installation centers, and controlling interest in the Bumper to Bumper programmed distribution group.

Nick Covatta, executive vice president of AI International, noted that if you consolidate four or five companies in the $20 million range you have to add the overhead to manage them, but they can't be more efficient. However, a $250 million company does show efficiencies of scale.

At this level, centralized buying, financial controls, and computerized inventory controls pay off. AI, Covatta said, is in a period of consolidating its various WDs, reducing overlaps, getting to know one another and smoothing out rough edges. And, as Covatta said, "Nobody knew who we were several years ago. Now they do. It's important to get enough size to be a factor. Suppliers want to cooperate with us."

About the only item on its plan that AI has not accomplished is to control an import parts program.

Programmed Distribution

Developing a programmed distribution group within the AI chain was an integral part of the initial AI planning. Its research showed that popular parts (20% of total part numbers) made up 70% of parts sales. However, 30% of the 70% went to DIYers. So not to pursue the DIY market aggressively meant conceding almost half the popular part business.

AI, of course, had the luxury of studying this before getting into the aftermarket. The rest of the traditional market had to learn it the hard way. The DIY boom of the 1970s and the fuel crisis that shut down many of its traditional customers forced the WD to reexamine its distribution pattern. Bob McKenna, NAPA president, summed it up succinctly for *Automotive Marketing*: "We sort of let this happen. We sat around with our heads in the sand and allowed retailers to have the retail market. It's just like the car companies were to blame for letting us have the repair market years ago. If we'd acted ten years ago with the programs we now have in merchandising and advertising, the retail chains would never have got a foot in the door. Now we have to go back and battle them for our share."

The response was programmed distribution which provided programmed jobbers with competitive marketing support in merchandising, advertising, and competitive pricing on DIY part numbers. About 25 programmed groups sprang up in the 1970s, and 18 have survived, serving about 17,000 jobbers to some degree. According to Creamer, about half of WDs are presently affiliated with a program.

Pluses and Minuses

By and large, programmed WDs feel they've succeeded in meeting the retail challenge, at least for most jobbers. Joe Strauss, of Strauss-Frank, San Antonio, TX, said the Carquest program gave his jobbers the planned sales, promotions, and merchandising expertise needed to compete. "Differences in us and them? Jobbers are better trained to give advice. They have local expertise and know needs and wants. And, they're full line jobbers, not just fast line sellers. They're able to take care of DIY customers and dealers."

TPS's Riley Taylor, Sr., (part of All-Pro) thinks the only area where the programs can't compete with retailers is, "The dollar amount of advertising. I'm not sure we can overcome that." However, Taylor added that jobbers will benefit from their wholesale business. "The retail market has capped. I think the retail operators have maxed it out. We're going to have to find ways to tie in our dealers with our programs. Why they should install, recommend, and use our parts."

One remaining weakness of programmed distribution lies in control of the program. As we noted above, about 17,000 jobbers are involved in programs to some degree. To what degree is the key. Most WDs are happy with 60-70% of a jobber's purchases. But by that yardstick, the number of jobbers in programs would drop dramatically. And too, every single program has to be sold to each and every jobber. Joe Matlock of AAAD summed it up well, "We're like a paraplegic leading a band. We can't wave our arms, we can't march along. All we can do is yell as loud as we can."

Fred Pisciotta, APS president, says that lack of control is only a excuse. "Control is not the answer. It's a frustration. The answer is in the quality of concept: having the right ingredients in the program and marketing it well. Having all the supports in place. You still need that entrepreneurial aggressiveness from independent jobbers. Our trade advertising tells it the way it is. Risk and reward. We complement the independent jobber, not control him."

WD-Owned Stores

Although programmed distribution has given WDs better buying power, the lack of control has led many WDs to open their own stores. This is particularly true in metropolitan areas where chain stores flourish and jobbers are weakest.

WD-owned stores are naturally a sticky point when WDs and jobbers meet. In fact, a group of Florida jobbers has brought suit against several Florida WDs for selling direct. Despite the controversy, WDs presently own about 3,500 jobber stores and the number is increasing. One study found 43% of WDs own at least one jobber store. The average was 12.

There are often WDs competing directly with jobbers in some areas. "How do I explain that?" a WD said. "Do you want answer A or answer Z? Sure, they're terribly ticked off. But most people realize that any user can buy items at jobber price somewhere. To sell retail you've got to compete with national retailers. A WD can compete price-wise with retailers who sell just a tad above jobber price, but you can't sell to independents at a price that will let them sell at that price. If you're going to compete in major markets, you're going to have to be controlled. Existing stores that have trade will survive with a program. But to have the edge, it will take a price competitive edge. Whatever the market dictates, you have to sell at retail levels. Jobbers are going to be hurt simply because of the pricing structures in the market." The WD expects WD-owned stores to double in the next five years.

There are also several WDs who've owned stores for many years. Charles O'Reilly, Sr. of Ozark Automotive, which has gone from 25 stores in 1980 to 74 in 1987, said his company has found the benefits of being big. "We're definitely a merged organization. We've copied what Auto Shack has been doing. Our stores are well-lit, with modern displays and fixtures, and working good for us. We're about 50/50 wholesale and retail. We benefit from two things: we're in a growth area, and the company's more aggressive. Too many jobbers are still behind the times. They couldn't or didn't want to make changes. Overall, I think it's the sign of the times. The big are getting bigger. Larger companies can do more and spend more money to upgrade their stores."

Strauss, of Strauss-Frank, San Antonio, TX, said, "Why own stores? Look at the market. There're lots of voids where we have no distribution. If there's no legitimate independent in a market, we'll buy a store. But we want to operate at an arm's length situation from our jobbers."

However, Pisciotta warned, "A lot of people who are buying stores to protect market share have a WD mentality and they will find problems. They don't know they don't have the skills until it's too late. We run our stores well today; but once, we didn't. Owned stores require different controls. You're dealing with various classes of trade. Customer service is a different mentality. A WD business is a disciplined way.

"I feel the advantage of owning our stores is that it gives us a better insight into our customer, the jobber, and his problems. It made us be a better WD. We grew up in our store business. I see a good future for the independent. It's a big market and there are jobbers to be serviced. I know there's level skipping going on. A lot of people think owning stores will be their salvation, but some WDs are going to be surprised."

Although WDs are not keen on discussing selling direct with their jobbers, there's no doubt it will continue and grow. After all, major retailers are really only WDs with a controlled group of stores. It's only tradition that keeps a traditional WD from imitating a Pep Boys.

The Future

What will the merging market mean for the aftermarket? First, and most important, it means a distributor-driven market. We're starting to see this already on the retail side. A California rep claimed that 85% of his business came from three chains: Pep Boys, Chief, and Grand. And the Wal-Mart issue, where a major mass merchandiser wants to dictate how suppliers sell to them (and some suppliers have conceded to their demands,) has shown the power of a major retailer.

On the traditional side we're beginning to see the same thing. Programs have demanded short-line private labels from suppliers which allow them to be price competitive with retailers. On branded products, there's a lot of discussion whether fixed pricing and fixed margins will survive in the future. At least one major traditional supplier has already eliminated price sheets and guaranteed margins.

The buying power of the programs and major retailers may soon reach the point that an uncooperative supplier can be shut out of a market. This suggests that both the large programs and retailers will be able to squeeze suppliers for the very best deals.

This means even more problems for the independent WD and smaller retailers. Creamer expects to see more and more independent WDs joining programs, and the programs controlling 60-65% of total sales on the traditional side. For those who remain independent, managing assets and costs better will be a matter of sheer survival against the giants. Price competition will force smaller WDs to find niches in the market they can exploit. Specialization may be the only answer for the independent who refuses to join a group.

At the jobber level, the future may see more jobbers banding together in buying groups. And suppliers may be willing to deal with them. This, in turn, will make the larger programs open more WD-owned stores that can compete with the megachains.

On the retail side, the continued growth of megachains will take them into the smaller towns and rural areas, which are still independent jobber strongholds. That might become a very workable strategy for the number three or four retailer in a major market. While it's hard to compete in Los Angeles against Pep Boys, Chief, Kragen, and Trak, one of these, or a smaller chain, could easily go to a smaller store, small town strategy and dominate a dozen small markets.

On the traditional side, WDs are already envious of Parts Inc.'s deal with Goodyear (The warehouse sells direct to Goodyear stores and local Parts Plus jobbers provide fill in parts). The growth of the specialty installers is driving many garages and gas stations out of the quick repair business. It's easy to see larger WDs or programs setting up more direct deals with the specialty repair shops.

Finally, for a long time jobbers could take comfort in the fact that the average retail store stocked only a few fast-moving parts. But in the last few years, retailers have continued to increase their SKUs. Ten years ago, the average retail store stocked about 5-6,000 part numbers; today, it's closer to 9-10,000. And the new items are almost exclusively hard parts that were once jobber-only items. Increased inventories and competition will lead retailers to examine other markets, like wholesaling to dealers. Chains like Chief, Western Auto, and ADAP are already testing programs in this area with varying success.

All in all, it seems as though the automotive aftermarket will soon resemble the grocery market. Dominated by a few dozen giant chains, supplemented by specialty stores, and a few last ditch holdout mom and pop stores. ■

(Circle 27 on Product Information Card) →

SPRING/SUMMER SELLING & MERCHANDISING GUIDE

Volume aftermarket retailers all over the country are getting ready for a good Spring/Summer selling season.

by **Edward L. Kaufman,** Contributing Editor, and **Philip Katcher,** Research Editor

With some exceptions, automotive retailers all over the country anticipate good sales during Spring 1987. This is traditionally the "get ready time" for DIY-oriented car owners, the time for doing "driveway tasks" DIYers shun in cold, wet weather; things such as washing, waxing and refurbishing their car bodies, changing oil and filters, flushing the cooling system and adding new coolant, and otherwise improving the looks of cars and trucks with accessories.

And most retailers are getting ready to handle increased sales of these traditional Springtime car maintenance tasks. Western Auto's Vice President Mike Riggans, for example, says that for Spring 1987, "We'll be advertising and promoting the usual seasonal items such as car washes, waxes, car body repair materials, and tune-up parts."

Retailers expect a seasonal pick-up in the sales of chemicals, body fillers, filters, engine and carburetor cleaners, motor oil, and appearance accessories. In fact, sales will pick up for nearly all automotive items with the possible exception of what some retailers regard as being "Winter chemicals." Spring should be a good time for promoting radiator flushes and coolant replacement—as it is for some retailers already. However, some retailers perceive antifreeze/coolant as a "Winter item," so it gets Winter treatment.

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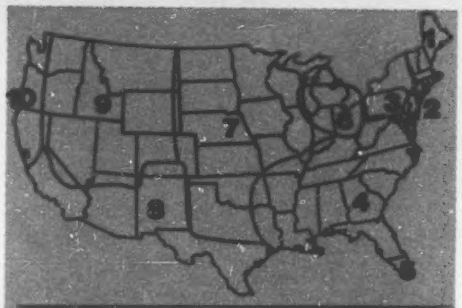

1. Greenbelt East
2. Megapolis East
3. Smokestack East
4. Old South
5. Caribbean South
6. Smokestack Central
7. Grainbelt Central
8. Spanish West
9. Desert West
10. Greenbelt West

Retailers Look At Spring 1987

Seattle-based Schuck's Auto Supply stresses seasonal promotions, according to Tim Phillips, one of two merchandising managers in the chain, who has responsibilities for such lines as tune-up parts and engine hard parts, suspension system parts, and truck accessories. He says, "There is a definite seasonal pattern to some of these products. For instance, we normally experience big increases in sales of shock absorbers in the Spring. Driving on hard packed snow is hell on shock absorbers, so many are worn out by the end of Winter. However, DIYers are, understandably, reluctant to get under the car or truck until the arrival of warmer weather."

What about Springtime business for tune-up parts? "We are not seeing as much of a seasonal upturn as we used to; business on ignition parts seems to be more spread out through the year than it used to be. It is only conjecture on my part, but I suspect that some of the car owners who used to come to us in the Spring for tune-up parts are now buying tune-ups in the Winter form tune-up specialists such as Quiet-Tune."

Hence, a need for even stronger promotional efforts. Phillips says, "We have used television for about four years, both for specific price point advertising and for ore institutional seasonal advertising. For example, our Spring Car Care and Prepare For Winter advertising."

Selling In A Truck Market

Schuck's faces some different problems than do chains in other areas of the country. For one thing, the Pacific Northwest is "truck country." Phillips says, "There are a *lot* of light trucks in use up here. In fact, for Ford, its biggest selling vehicles in the Northwest is its pick-up trucks."

Schuck's has been selling a broad line of truck accessories for years, including

LOOKING AT THE ACCESSORY PRODUCTS MARKET

Spring 1987 will differ from prior years in that it will see accelerating sales of appearance accessories, items such as striping and chrome trim, and many items sold primarily for light trucks such as suspension parts, towing hitches, truck bed liners, tail gate protectors, running boards, and exhaust stacks.

For these items, sales are up not only *seasonably*, but *cyclically*. With generally favorable economic conditions during the past few years, appearance and performance accessories—especially for trucks—have been selling well among specialty retailers. Now, broader-line automotive retailers are getting on the bandwagon, too. They will be devoting more floor space and advertising dollars to these items in early 1987.

Selling Sun Shades

One seasonal item you are going to see and hear more of in 1987 is the back-of-the-windshield sun shade. This item, made of cardboard, corrugated paper, or metallized mylar film, is designed to keep vehicle interiors from overheating because of the sun. Aside from not liking too-hot steering wheels and vinyl upholstery, vehicle owners are buying sun shades to protect their valuable sound systems. Leave your car in the sun long enough for interior temperatures to reach 110° (not hard to do in Phoenix in late June), and you risk expensive damage to the insulation on your electronic gear.

Introduced only about three years ago, car sun shades made their initial impact in sunbelt markets like Los Angeles, Las Vegas, Miami, and, of course, Phoenix. More recently, retailers in more temperate markets have found rising demand for sun shades. Too-hot cars are a problem everywhere in North America during the Summertime, not just the sunbelt.

Chief Auto's 470 stores are mainly located in the sunbelt, in sites ranging from California to Texas. And, Chief Group Manager Mike Manor says sun shades are doing very well in Chief stores. "We introduced them to our California stores in 1985 and they did so well that we carried them throughout our chain in the Summer of 1986. In the past two years we've sold hundreds of thousands of these items." In much the same way, Mike Riggan, Western Auto vice president, reports, "We introduced sun shades last year and the response was tremendous!" And, in Flint, MI, Bob Sabo of Action Auto says, "We tried them last year in a limited way and we were encouraged by the results. We are going to devote more space to this item this spring. Currently we are testing one make of sun shade that glows in the dark."

Who would imagine that sun shades would sell in drizzly Seattle? Tom Aitchison, a Schuck's Auto Works merchandising manager, says, "As a matter of fact, this surprised us, too. We introduced sun shades last year (cardboard types made by Wallfrin). We expected them to sell in the drier parts of our market such as Eastern Washington and Oregon, so we placed most of our stocks in those areas. However, we tested demand in all our stores. They sold well enough that this year these shades will be stocked in all our stores. The Wallfrin shades retail for about $3. In 1987 we'll be testing other, higher priced sun shades of the metallized plastic type."

Any signs of a sun shade sales letup? "Not yet," Manor says, "but I am troubled by the fact that so many are coming on the market now."

Chief Auto has been selling cardboard sun shades. "We like the fact that they are consumable. People keep them for a year or a year and a half. Some organizations—for example, the Los Angeles Dodgers—have given shades away for promotional purposes. That probably absorbs some of the demand for them," Manor says. Other organizations, such as McDonald's Restaurants did last summer in the Los Angeles area, sell them cheaply as a promotional item.

Are sun shades just another fad? "They might be in certain markets, places where they are bought primarily for their novelty appeal like bumper stickers. However, in places like Los Angeles, Las Vega, Phoenix, and Palm Springs, there is a real need for protecting car interiors from the sun. In those markets some car owners are buying 'dash guards', too, to protect their fancy leather dashboards from fading. These dashboard protectors are made of carpeting, designed to provide a custom fit for specific makes and models and are attached by Velcro tabs."

Light Truck Accessories

A number of retailers, too, have indicated that they expect light truck accessories to be big Spring 1987 sellers. But are they simply a seasonal item? "Not at all," says Harlan Felder, merchandising manager, Superior Industries, Van Nuys, CA. "The fact that sales are rising in Spring 1987 indicates that the demand is *broadening*, reaching more outlets."

Are truck accessories fad items? Will we soon see a downturn in demand for light trucks? "We don't think so," Felder says. "Sales of these vehicles have been rising because they represent a good value to young people. They like the idea of buying 'shell campers' that they customize to their liking. Frankly, a lot of people are buying trucks who do not have an absolute *need* for them. On the other hand, there is an increase in outdoor activity for which trucks are useful." ■

WHERE THEY BUY CUSTOM WHEEL PRODUCTS

We compared the percentages of DIYers in each of the unique *Automotive Marketing* marketing areas to the percentages of DIYers in those areas who bought custom wheels and accessories—a line of products commonly bought by light truck owners—during the year before the study was made. The geographic pattern of buyers of custom wheels and accessories such as covers, nuts, and locks, generally fits the patterns of light truck owners.

AM Market Area	Total DIYers	Product Buyers
Greenbelt East	5%	9%
Megapolis East	9	8
Smokestack East	10	9
Old South	29	31
Caribbean South	1	1
Smokestack Central	13	12
Grainbelt Central	16	15
Desert West	5	5
Spanish West	9	10
Greenbelt West	3	4

Source: *Automotive Marketing Consumer Automotive Repair Study*

WHERE THEY BUY ELECTRONIC ACCESSORIES

We compared the percentages of DIYers in each of the unique *Automotive Marketing* marketing areas to the percentages of DIYers in those areas who bought electronic accessories during the year before the study was made. Electronic accessories were better sellers in the Northeast and Central United States.

AM Market Area	Total DIYers	Product Buyers
Greenbelt East	5%	9%
Megapolis East	9	10
Smokestack East	10	7
Old South	29	22
Caribbean South	1	2
Smokestack Central	13	15
Grainbelt Central	16	21
Desert West	5	2
Spanish West	9	9
Greenbelt West	3	1

Source: *Automotive Marketing Consumer Automotive Repair Study*

running boards and pass-through windows. "We get one upturn in truck accessory business in March, when DIYers are getting ready for the Spring," Phillips says, "and another in the Fall when the new truck models come out. Owners of brand new trucks come to us for accessories that might also be sold as dealer items."

Schuck's sells a lot of truck accessories because it devotes the time and effort—and money—to promote them. Phillips says, "We have done well on truck accessories for years. However, our sales of these items really took off in the Spring of 1986 as a result of our 'I Love My Truck' promotion.

"Beginning in March, 1986, we had 30

LOOKING AT THE BODY REPAIR PRODUCTS MARKET

Its hard to judge where the body filler market is going. During the recession of the late 1970s and early 1980s, when people started hanging on to their cars longer than ever, growth of sales of material used to repair car bodies was rapid. Today, total sales of body filler material is estimated at around $100 million. However, people are now setting records in buying new cars (with bodies that don't need repair right away), and growth of body repair material appears to have slowed down.

Changes Are Coming

This doesn't appear to be a permanent slowdown. However, things are changing in the future. New materials, notably plastic fillers, are coming into use. Originally, plastic autobody filler's primary application was as a replacement for soldered lead in autobody repairs. Today, plastic fillers are coming into increasing use as a "universal quick-hardening filler material or spackle," readily available and useful in the repair of any hole, dent, or scratch. Besides being used for repairs on cars and trucks, fillers are finding new markets as they are used for marine, architectural-woodwork, plumbing, and general household and around-property repairs, sculpture (as a metal replacement), hobbies and crafts, and a wide variety of industrial uses and repairs.

Moreover, plastics and thinner steels are being used in ever-increasing amounts on car bodies. The thinner steels are more easily dented in minor "fender bender" accidents, and more easily patched with the new types of body repair fillers available. The plastic panels are easily replaced at a much lower labor cost than used to be charged for the more tedious work of filling, sanding, and repainting older cars.

And, now, where insurance companies used to simply pay off the book value of a heavily damaged car, now many of them want cars to be repaired, since repair is cheaper than replacement.

The bottom line, according to Donald J. Peck, chief executive officer, The Clausen Co. (Fords, NJ), is that because vehicle owners are now keeping their vehicles longer than heretofore, more effort is being devoted to maintaining a vehicle's value through cosmetic—appearance—repairs. These are either through professional autobody-repair shops or by weekend DIYers. This has resulted in the growing need for more up-to-date knowledge about filler products and their use by repairers.

Getting At The Problem

The problem seems to be how to get that knowledge on body filler products and their use to the customers. Customers will buy body repair products if they know, first, that they are available, and, second, how easy they are to use.

The problem is conpounded by the fact that where there was body filler, period, today there are different varieties of body filler products at different price points. At the top of the line is a type containing powder metal that hardens virtually as hard as metal. The user has to learn what type he needs and how to apply it.

There are a number of ways to of getting this information out to the car-owing public. And many retailers who report good body filler sales use all or a number of different ways to increase customer knowledge and, therefore, sales.

Jim Wayco, Pacesetter Auto Parts, Merrillville, IN, finds he sells body filler best through special in-store displays and advertising promotions. John Morris, Morris Auto Supply, Inc., Springdale, AK, also makes use of training material produced by manufacturers to hand out to customers who may or may not already know about body filler, but certainly appreciate the additional information in the printed pieces. And Mark L. Crossman, Ridge & Kramer, Coloma, MI, finds that special clinics on how to use body filler material help move product. Many other retailers use a combination of several of these methods of putting out product knowledge and building product sales.

Don't Forget Paint

Don't forget, too, that touch up paint products should be sold at the same time as body filler. These should include primer (gray is the most popular primer color, followed by red and black) and final paints to match the car color. According to one leading paint manufacturer, only 46 SKUs of the paint it produces will match nearly 3,000 different car factory finishes. And it's important to have the right color on hand—and displayed—for each customer.

The display is important, too, because according to the *Automotive Marketing 1985 Consumer Automotive Repair Study*, 85% of DIYers who buy paint pick it themselves from self-service displays.

No matter what method or combination of methods are used to educate potential body filler customers, however, the challenge of building sales through educating customers remains. Retailers who meet that challenge and educate DIYers in body filier use will have yet another weapon to battle the competition in their arsenals. ■

WHERE THEY BUY PAINT

We compared the percentages of DIYers in each of the unique *Automotive Marketing* marketing areas to the percentages of DIYers in those areas who bought paint during the year before the study was made. DIYers in Smokestack East were far and away more apt to buy paint—that soot is rough on car finishes.

AM Market Area	Total DIYers	Paint Buyers
Greenbelt East	5%	6%
Megapolis East	9	8
Smokestack East	10	17
Old South	29	27
Caribbean South	1	2
Smokestack Central	13	14
Grainbelt Central	16	13
Desert West	5	3
Spanish West	9	5
Greenbelt West	3	6

Source: *Automotive Marketing Consumer Automotive Repair Study*

WHERE THEY BUY BODY FILLER

We compared the percentages of DIYers in each of the unique *Automotive Marketing* marketing areas to the percentages of DIYers in those areas who bought body filler during the year before the study was made. The results clearly indicate the importance of weather, and nearness to the body-rotting salt air of the ocean in the case of Caribbean South. The Northeast is the big body filler sales area.

AM Market Area	Total DIYers	Filler Buyers
Greenbelt East	5%	8%
Megapolis East	9	11
Smokestack East	10	19
Old South	29	16
Caribbean South	1	3
Smokestack Central	13	17
Grainbelt Central	16	18
Desert West	5	5
Spanish West	9	1
Greenbelt West	3	3

Source: *Automotive Marketing Consumer Automotive Repair Study*

days of TV, radio, and print advertising homing in on the light truck aftermarket. These ads showed owners what they could do to improve the appearance and functionality of their trucks. We had before and after photographs, and, in each store, a brand new Ford Ranger pick-up—with all our accessories on it. This was the first time we ever zeroed in on a product group in this manner."

Not Just In The Northwest

And, light truck products will be big this Spring outside the Northwest, too. For example, Rocky Geichman, Rocky's Automotive in Columbus, OH, says that this Spring the big thing, "for us, I think, will be accessories and parts for pick-up trucks, minivans, sports vans, and 4 x 4s; things like double roll bars, truck bed liners, wheels and tires."

The idea of competing aggressively for truck parts and accessories business is still new at Rocky's Automotive. "Our nine stores are located in smaller towns surrounding Columbus. There are high registrations of trucks in the rural and semi-rural towns. Although we have been seling replacement parts for these vehicles, we have only recently begun to think about carrying up-scale accessories for them.

"Frankly, we haven't figured out all the details of our program yet. We have to make some decisions on which lines to carry, how many items to stock at the stores and our Columbus warehouse, what kind of advertising to run, and so on. Nevertheless, I am sure that trucks are where it is going to be this Spring."

Rocky's will try to have some light inventories on each truck accessory market at the stores, plus back-up stocks at its central warehouse. "We may have one for show and one for go. Some items may only be available on special order." on some highly specialized items, the chain may rely on performance WDs.

Tapping A Performance Market

Spring 1987 for Action Automotive, Flint, MI, will see much more emphasis on performance parts—manifolds, caruretors, ignition parts, and lighting. The latter item is especially popular for use on 4 x 4s and light trucks.

"At Action Automotive," says Bob Sabo, "we are willing to experiment. We have noticed increasing demand for performance items in other markets. Surprisingly, there are not a whole lot of performance WDs and specialty retailers in Michigan. So, we are getting on the band-

LOOKING AT THE MOTOR OIL AND FILTERS MARKET

There is really no reason for car owners to consider motor oil and filters items to changed in the Spring as opposed to the rest of the year. And, although this is traditionally a time that filters and motor oil are especially promoted, some chains have gone against this trend.

"For example," Tom Aitchison, merchandising manager at Schuck's Auto Works, says, "January is supposed to be a 'dead' month for sales of motor oil in the Northwest. Well, we promote motor oil in January successfully."

There is, however, a good reason why manufacturers promote oil changes, including both filters and motor oil, in the Spring. According to Mark Prus, director of motor oil marketing at Quaker State, there are two types of motor oil buyers. The first is what he calls the "car-caring customer." This individual is systematic about his car maintenance, changing the oil and filters at regular intervals—intervals often even shorter than those recommended by his car's manufacturer. This type of DIYer doesn't need to be reminded to change oil and filters—fuel and air as well as oil—at regular intervals.

Motivating The Oil Changer

Were that all customers were the first type of DIYer. Unfortunately, they aren't. The second type is the more common type. He or she is motivated to change car oil and filters only when when thinking of doing a number of car-related DIY tasks—things like waxing and polishing, cleaning the car interior, and flushing and changing the antifreeze/coolant. These are typically Springtime projects.

Therefore, this type of DIYer tends to buy motor oil only when in an auto parts store when also buying a number of products for these jobs. And, often that's around Memorial Day or Labor Day.

Chief Auto's Mike Manor sees this trend, too. According to him, "Our sales of maintenance products increases in the Spring. These include items that are routinely replaced at intervals—things like belts, hoses, and filters."

Hence, that's when motor oil and filter manufacturers tend to present their big, blockbuster promotions.

What To Expect

As far as Spring 1987, while it's too early to give specific facts on most upcoming motor oil or filter promotions, generally expect to see more rebate programs and promotions that push related products such as filters and motor oil. This type of promotion has the advantage of tying the sale of a higher margin product to the sale of motor oil which is, traditionally, sold at much lower margins. The result is increased profits for retailers.

This type of promotion is ideal for those second type of customers who come into a store planning to buy a variety of products to accomplish a plethora of car maintenance tasks. And, since those are the types of customers who frequent aftermarket retailers especially in the Spring, the timing is perfect. ■

WHERE THEY BUY FILTERS

We compared the percentages of DIYers in each of the unique *Automotive Marketing* marketing areas to the percentages of DIYers in those areas who bought filters during the year before the study was made. In most cases around the same percentage of people were both DIYers and DIYers who bought filters.

AM Market Area	Total DIYers	Filter Buyers
Greenbelt East	5%	6%
Megapolis East	9	8
Smokestack East	10	11
Old South	29	28
Caribbean South	1	1
Smokestack Central	13	13
Grainbelt Central	16	16
Desert West	5	6
Spanish West	9	10
Greenbelt West	3	2

Source: *Automotive Marketing Consumer Automotive Repair Study*

WHERE THEY BUY MOTOR OIL

We compared the percentages of DIYers in each of the unique *Automotive Marketing* marketing areas to the percentages of DIYers in those areas who bought motor oil during the year before the study was made. In most cases around the same percentage of people were both DIYers and DIYers who bought motor oil. Interestingly, however, DIYers who put long-driving miles on their cars, in the Grainbelt Central, Spanish West, Old South, and Greenbelt West areas bought motor oil at a slightly higher rate than elsewhere in the country.

AM Market Area	Total DIYers	Oil Buyers
Greenbelt East	5%	5%
Megapolis East	9	9
Smokestack East	10	9
Old South	29	30
Caribbean South	1	1
Smokestack Central	13	12
Grainbelt Central	16	17
Desert West	5	5
Spanish West	9	7
Greenbelt West	3	5

Source: *Automotive Marketing Consumer Automotive Repair Study*

wagon and are offering more merchandise of interest to performance buffs."

In addition to performance items, this chain is stressing parts and accessories for pick-up trucks, vans and 4 x 4s. Action Automotive's truck sections, typically about 8′ x 8′, feature such items as tow bars, bed liners, and tailgate protectors.

Action is also an aggressive advertiser. Sabo says, "We have achieved great increases in our sales of tires from our advertising program. We also promote our automotive services heavily, too." For example, for Spring 1987 the chain will once again advertise its free, 15 point seasonal check-up.

Rocky's Automotive stores sells performance parts, too. Mainly *true performance* items such as manifolds, cams, and suspensions. "These are sold mainly to young guys who want to get more performance out of their small displacement engines," Geichman says.

Is there much overlap between the performance market and the truck market? "Not as far as we are concerned," Geichman says. "The demographics appear to be different. If you buy some Rough Rider shocks for your 4 x 4, you may spend upwards of $200. That customer seems to be older and more upscale than the performance buff."

Further north, a number of Canadian markets have eight months of winter. "As a result," says manufacturer's rep Glen Heath of Fore-Tenn Marketing, Toronto, "there is a lot of Springtime activity here such as washing and waxing the car and refurbishing the car body. Retailers here prepare for a seasonal pickup in business in April; big promotions are planned for weekends in May. Queen Victoria's birthday is a *big* holiday; like your Memorial Day weekend."

What can retailers expect in Spring 1987 in Canada? "Because economic conditions here have been favorable during the last few years, we are seeing increasing demand for discretionary items. There will be heavy emphasis on merchandise for light trucks and four wheel drive vehicles. These will include both appearance accessories and suspension parts." ■

LOOKING AT THE CHEMICAL PRODUCTS MARKET

Folk remedy fans may recall that it was fashionable at one time for Americans to "tone" their bodies in the Springtime by ingesting things like sulphur-and-molasses. What the "tonic" did mainly was get rid of a lot of sludge.

Is there an analogy here for automobile "innards?" Of course. Cooling systems should be drained and flushed, and this can be done in the Spring as well as the Fall. It is a good idea to give the engine a five-minute flush to purge the system of sediments. Carburetors should be cleaned regularly, too. Now that fuel injected cars are coming on strong, there is a new and rapidly growing market for fuel injector cleaners and "purges."

With regard to cooling system flushes, Jerry Smith, Gold Eagle Co. marketing director, says, "Frankly, retailers have gotten out of the habit of promoting this product for Springtime application. Years ago, car owners knew that they had to flush their systems twice a year, once in the Spring to get out the old glycol and add water and a corrosion inhibitor, then again in the Fall to add antifreeze. With the development of year-round antifreeze/coolant, flushing has become an annual event, more usually performed in the Fall. But it could be performed just as readily in the Spring."

WHERE THEY BUY MAINTENANCE CHEMICALS

We compared the percentages of DIYers in each of the unique *Automotive Marketing* marketing areas to the percentages of DIYers in those areas who bought maintenance chemicals during the year before the study was made. Maintenance chemicals sold best in America's Southern regions.

AM Market Area	Total DIYers	Product Buyers
Greenbelt East	5%	5%
Megapolis East	9	7
Smokestack East	10	10
Old South	29	32
Caribbean South	1	1
Smokestack Central	13	10
Grainbelt Central	16	18
Desert West	5	5
Spanish West	9	12
Greenbelt West	3	1

Source: *Automotive Marketing Consumer Automotive Repair Study*

The general perception in the aftermarket is that cooling system flush and fill is a Winter activity. But as Tom Aitchison, Schuck's Auto Works merchandising manager, observes, "It is a lot easier to drain your antifreeze in the Springtime when it is 65° outdoors than in late Fall. So, we promote cooling system business in the Springtime along with other 'get ready for Summer' tasks."

WHERE THEY BUY WAX AND POLISH

We compared the percentages of DIYers in each of the unique *Automotive Marketing* marketing areas to the percentages of DIYers in those areas who bought wax and polish during the year before the study was made. Where Winters are wet, cold, and long, not surprisingly, DIYers tend to buy less wax and polish, while the opposite is true in sunny climes.

AM Market Area	Total DIYers	Product Buyers
Greenbelt East	5%	4%
Megapolis East	9	7
Smokestack East	10	11
Old South	29	29
Caribbean South	1	2
Smokestack Central	13	14
Grainbelt Central	16	16
Desert West	5	5
Spanish West	9	8
Greenbelt West	3	4

Source: *Automotive Marketing Consumer Automotive Repair Study*

Another Seasonal Change

Gold Eagle's Smith points out another seasonal change that affects chemical product sales in the Spring. "With rising outdoor temperatures going from Winter to Spring to Summer, there is an increasing need for octane boosters," he says. "Lack of octane is what causes engines to knock in hot weather."

As far as using an octane booster, Smith adds, "We recommend adding one can to each tankful of gasoline. Actually, it is a good idea to recommend that the car owner buy this product a case at a time, starting in the Spring. That way he'll be sure to have some in the trunk when he buys his next tank of gasoline."

Other Chemicals

The above products can, of course, be, and are, used year-around. But applications of car wash, wax and polish, and finish restorers are definitely seasonal. In the U.S. as a whole, sales of these items drop off in December and don't pick up until the end of March—the beginning of Spring in many areas of the country. Therefore, for many appearance chemical manufacturers—and retailers—the emphasis for Springtime promotions is in the appearance category.

So retailers can expect a good Springtime for chemical sales. In Flint, MI, the Action Automotive chain, for one, reports it is preparing for a seasonal upturn in demand for appearance chemicals and maintenance chemicals, especially additives and fuel system cleaners. ■

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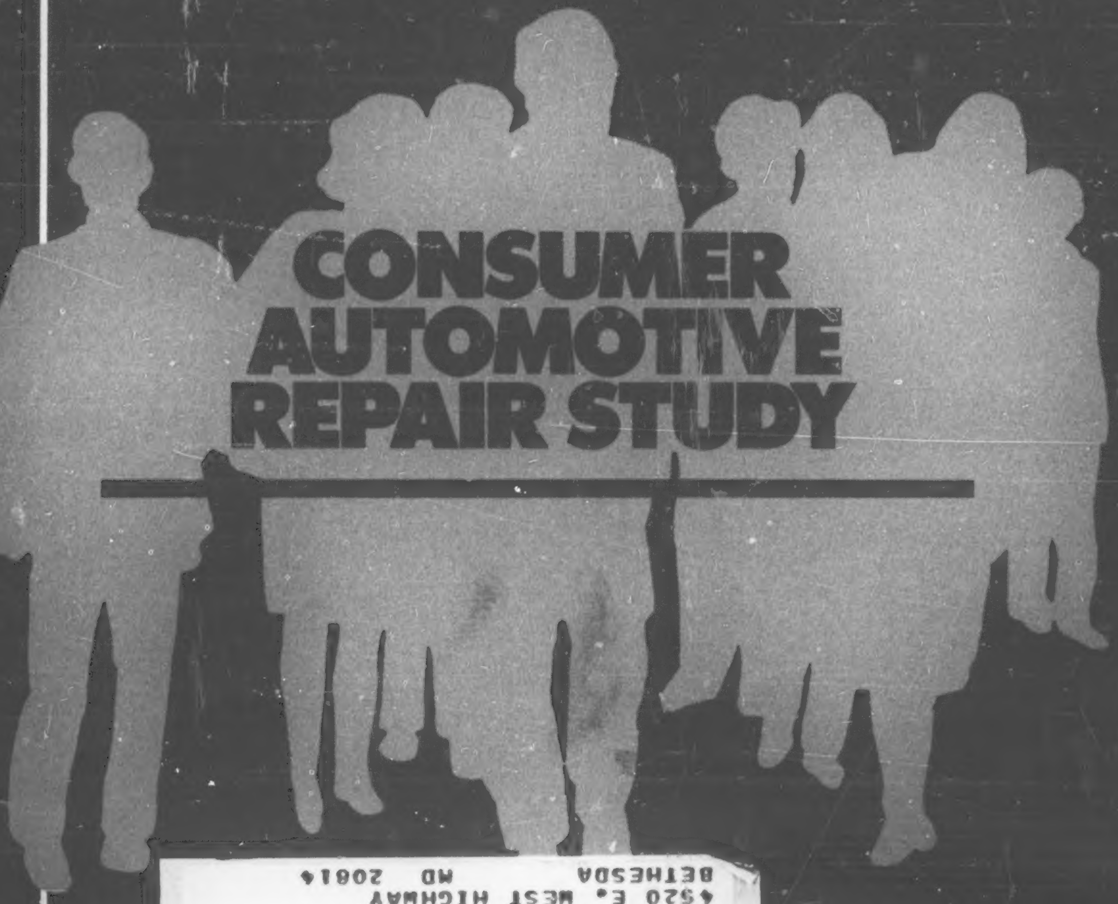
The Marketing/Business Magazine for the Retail Aftermarket

MARCH 1987

1984 TO 1987 CARS



CONSUMER AUTOMOTIVE REPAIR STUDY

Good news, bad news for the retail aftermarket. Automotive Marketing looks at today's DIYers compared to 1984's DIYers.

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PUBLISHER'S NOTES

DIALING FOR NUMBERS

Some people live on the phone, and enjoy it.

Can you imagine completing 1,711 phone calls? We did, and we did it for you!

In this *Automotive Marketing* issue, you'll find results of those phone calls made to collect the data for our 1987 *Consumer Automotive Repair Study (CARS)*.

There's good news for the marketplace. DIY participation moved up within the past three years from 71% of vehicle owners to 79%. There's bad news. The people who are buying products from us may number more, but they're not buying as much or as frequently as they did three years ago.

There are no surprises in the growth in percentage of women who work on their own vehicles. And no surprises about the graying of America and its ramifications on our marketplace at the retail level.

There's more good data on product movement in *Automotive Marketing's* Index.

For some surprises, you might check out our Detailing The Market section, Market Line, and colorful product news.

We like to provide you with information you need, and want. Tell us if we're doing a good job! ■

Sarah Frankson,
Publisher

THE AUTOMOTIVE MARKETING INDEX

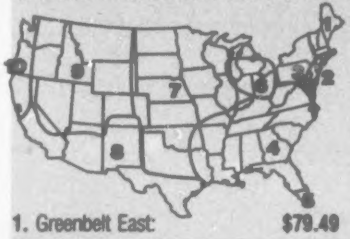
THE 1986-87 *AUTOMOTIVE MARKETING* MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index. The products include a non-resistor spark plug; an oil filter; a can of 10W30 motor oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

DECEMBER 1986 NATIONAL AVERAGE MARKETBASKET PRICES

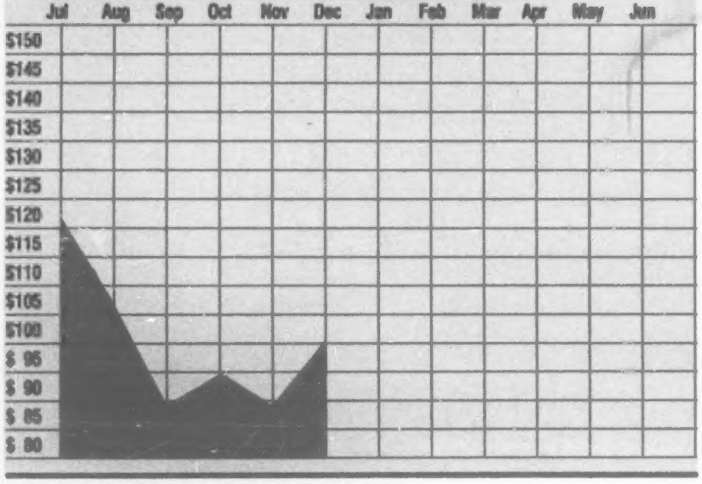
A non-resistor spark plug:	$ .73	A gas-charged shock:	$ 12.57
An oil filter:	2.02	One gallon of antifreeze:	3.11
A can of 10W30 oil:	.76	One pair of wiper refills:	2.19
A can of paste wax:	4.99	A 40-month battery:	32.81
An AM/FM/Cassette:	41.95	**Total:**	$101.13

DECEMBER AM MARKETBASKET PRICES BY MARKETING AREA



1. Greenbelt East:	$79.49
2. Megapolis East:	106.61
3. Smokestack East:	$100.94
4. Old South:	135.38
5. Caribbean South:	109.11
6. Smokestack Central:	100.94
7. Grainbelt Central:	77.89
8. Spanish West:	115.18
9. Desert West:	101.13
10. Greenbelt West:	84.60

NATIONAL AVERAGE MONTHLY 1986-87 AFTERMARKET BASKET PRICES



AFTERMARKET BUSINESS INDICATORS

	Unit/Base	Mo/Qr	Current Period	Prior Period	Year Ago, Same Period	Low (61-87)	High (61-87)
Personal Income	billion	3Q	$3,498.8	$3,483.3	–	1Q 61	3Q 86
Total Retailer Inventories	billion	Dec	$172.69	$174.79	$165.51	–	–
Consumer Price Index	67 = 100	3Q	2.6	-1.7	3.5	1Q 61	3Q 86

AMERICAN-BUILT CARS SOLD IN FEBRUARY 1-10 1987

New car sales were slow the first two months of 1987, as the new tax law took away incentives for new car purchases. To help compete this, manufacturers – even Japanese – manufacturers have been offering new incentives, including discounts and longer service warranties than ever before. Even so, the declining trend continued into February, according to preliminary figures.

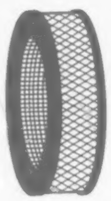
Maker	1987	1986	% Change
American Honda	7,539	3,453	118.3%
American Motors	850	1,800	-52.8
Chrysler	21,744	22,113	-1.7
Ford	43,395	42,870	8.2
General Motors	90,652	99,621	-9.0
Nissan	1,908	1,368	39.5
Volkswagen of America	714	1,147	-37.8
Total U.S. Industry	170,134	172,327	1.3

Sources: E.F. Hutton & Co., Motor Vehicle Manufacturers Association

1987 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various retail chain, manufacturer, and distributor common stocks in different stock exchanges for the 52 week period prior to February 13.

	Exchange	52-week High	52-week Low	2/13 Quote	P-E
Armor All	OTC	15 1/2	10 1/4	14 3/4	–
Cardis Corp.	AMEX	10	5 7/8	6 1/8	6
Champ Parts	OTC	11	3 1/2	9 3/8	38
Champ Spk Plg	NYSE	12 3/4	8 3/4	11 3/4	–
Crown Auto	OTC	4 1/4	3	3 1/8	16
Dana Corp.	NYSE	42	25 1/2	39 7/8	16
Duralon	OTC	18	9 7/8	11 1/4	15
Echlin	NYSE	24 3/8	15 1/4	22 5/8	20
Genuine Parts	NYSE	51 5/8	36 1/4	49	21
Prkr Hannfin	NYSE	37 5/8	20 1/4	34 1/4	17
Pennzoil	NYSE	81 1/8	48 1/8	81 1/8	63
Pep Boys	NYSE	48 1/4	26 1/4	47 3/4	32
Perry Drugs	NYSE	20 7/8	12	13 1/2	23
Purolator	NYSE	30 1/4	15	29 5/8	–
Quaker State	NYSE	30	23	27	13
Republic Auto	OTC	10	6 5/8	8 7/8	–
Rite Aid	NYSE	37 1/4	26 1/2	36 7/8	21
Sealed Power	NYSE	33 7/8	23 1/8	33 1/4	15
Southland	NYSE	60 1/2	44	50	11
Stan Mtr Prod	NYSE	24 3/8	13 1/2	24	19
Supr Ind	AMEX	16 3/8	11 1/8	15	11
TBC Corp.	OTC	18	8 3/4	17 1/4	14
Tenneco	NYSE	44 1/2	34 1/2	44	–
Trak Auto	OTC	18 3/4	11	13 3/4	145
Triad Systems	OTC	13 5/8	8 1/2	13 3/8	28



PRODUCT OF THE MONTH: AIR FILTERS

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study*, we look at the individuals who purchased and installed air filters during a 12-month period.

			Age					Income				Hours Per Month Spent On DIY				Number Of Cars Responsible For		
Total	Male	Female	-25	25-34	35-44	45-54	55+	-$20K	$20-30K	$30-40K	40K	-1 hr	1-5 Hrs	6-10 Hrs	11+ Hrs	1	2	3 or More
100.0%	70.5%	29.5%	11.7%	27.7%	25.1%	14.7%	20.5%	24.7%	20.5%	17.2%	22.0%	21.9%	57.9%	11.4%	7.6%	41.0%	35.3%	23.7%

CONSUMER AUTOMOTIVE REPAIR STUDY

Introduction

There's both good and bad news for aftermarket retailers. There are more DIYers than ever—but each one is buying less product.

by **Rosemarie Kitchin**, Editor; **Philip Katcher**, Research Editor; **Gail Krueger-Nicholson**, Senior Editor; and **John Wirebach**, News and Features Editor

Here's the story in a nutshell: in 1984, 71% of the country's population did some sort of DIY work on their vehicles; in 1987 this percentage had grown to 79%. At the same time, however, most product categories seem to be slipping in sales penetration.

There are more significant changes in the DIY market, too, that are revealed by comparing our 1984 *Consumer Automotive Repair Study* with our 1987 *Consumer Automotive Repair Study.* There are now 9% more women DIYers then there were three years ago. The number of college graduates jumped 6%, while those DIYers who failed to graduate high school fell 5%. There are 18% less DIYers who are younger than 24-years-old, while there are 9% more DIYers in the 25-44 year old age bracket.

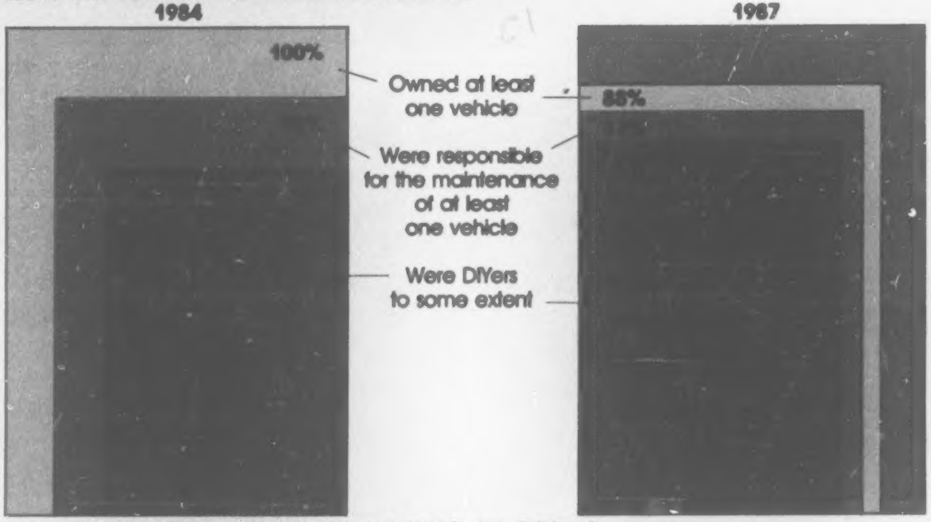
There are 12% less DIYers who make less than $20,000 annually, while 9% more make more than $40,000 a year. Now, 4% more hold white collar jobs, while the number holding blue collar jobs fell 6%. DIYers own more cars, too, with 5% more owning two or more cars in 1987 than did in 1984.

And, the average DIYer owns a domestic nameplate vehicle—overwhelmingly one made by General Motors Corp.

The picture, therefore, of 1987's DIYer is one of a male (although the number of women is constantly growing strongly), who is better educated and makes more money than before, holds a white collar rather than a blue collar job, is responsible for more vehicles than before, but still drives his "Chevy to the levie."

Interestingly, 22.8% of DIYers we surveyed indicated that they were responsible for maintaining a vehicle that they didn't own. What kind of people were these? Most of them (44.0%) made less than $30,000 annually, while 32.6% made less than $20,000. Most (66.5%) were responsible for maintaining two or

HOW WE SEGMENTED THE RESPONDENTS



RESPONDENT DEMOGRAPHICS (AMONG ALL DIYers)

What was the sex of the DIYer respondents?

	1984	1987
Male	74%	65%
Female	26	35

What was the marital status of the DIYer respondents?

	1984	1987
Married	64%	62%
Divorced/Separated	12	12
Widowed	4	5
Never married	19	21
No answer	1	0

How well educated were the DIYer respondents?

	1984	1987
Less than high school grad	14%	9%
High school grad	40	39
Some college	24	24

How old were the DIYer respondents?

	1984	1987
Under 18	1%	*
18-24	29	12
25-34	18	25
35-44	18	22
45-54	12	12
55-65	14	13
Over 65	9	17

How much do the DIYer respondents make per year (household income)?

	1984	1987
Under $10K	13%	8%
$10K-20K	28	21
$20K-30K	14	21
$30K-40K	14	15
$40K-50K	6	8
Over $50K	6	13
No answer	19	14

What do the DIYers do for a living?

	1984	1987
Professional/Tech	16%	20%
Managers/Admin	11	10
Sales	4	5
Clerical	6	9
Craftsmen	17	14
Operators	5	6
Transport Operatives	5	4
Laborers	2	2
Farmers	2	1
Service Workers	7	4
Armed Forces	2	*
Housewives	5	8
Students	3	3
Retired	12	12
Unemployed	3	2

How many vehicles were the DIYer respondents responsible for?

	1984	1987
1	48%	43%
2	35	37
3	11	13
4+	6	7

Where do the DIYer respondents live?

	1984	1987
House	74%	76%
Apartment	17	17
Mobile home	7	7

Do the DIYer respondents rent or own?

	1984	1987
Own	71%	68%
Rent	27	30

* Indicates a percentage too small for accurate measurement.

CONSUMER AUTOMOTIVE REPAIR STUDY

more cars—most likely their own and someone else in the same household's. Almost half (48.7%) increased their DIY work over the past year. Many (38.0%) were serious DIYers, putting in more than 6 hours a month on automotive DIY work. And, 54.9% were less than 34-years-old.

The Serious DIYer

In all, 19.7% of the DIYers we surveyed did notably more work on their cars than the average (57.6% put in 5 hours or less monthly). This number has fallen slightly from the 21% who did this much of their own work monthly in 1984. But this is still the best customer group an automotive parts and accessories retailer can have. Because, this group of less than 20% of all the DIYers out there buy 42.8% of all the headlights, 47.6% of all the custom wheels and wheel covers, 48.7% of all the struts, 35.8% of all the car sound equipment, 42.1% of all the starter motors, 40.7% of all the water

STUDY METHODOLOGY

The aim of the Consumer Automotive Repair Study *is to produce an accurate and complete study that can be projected across the entire country's population.*

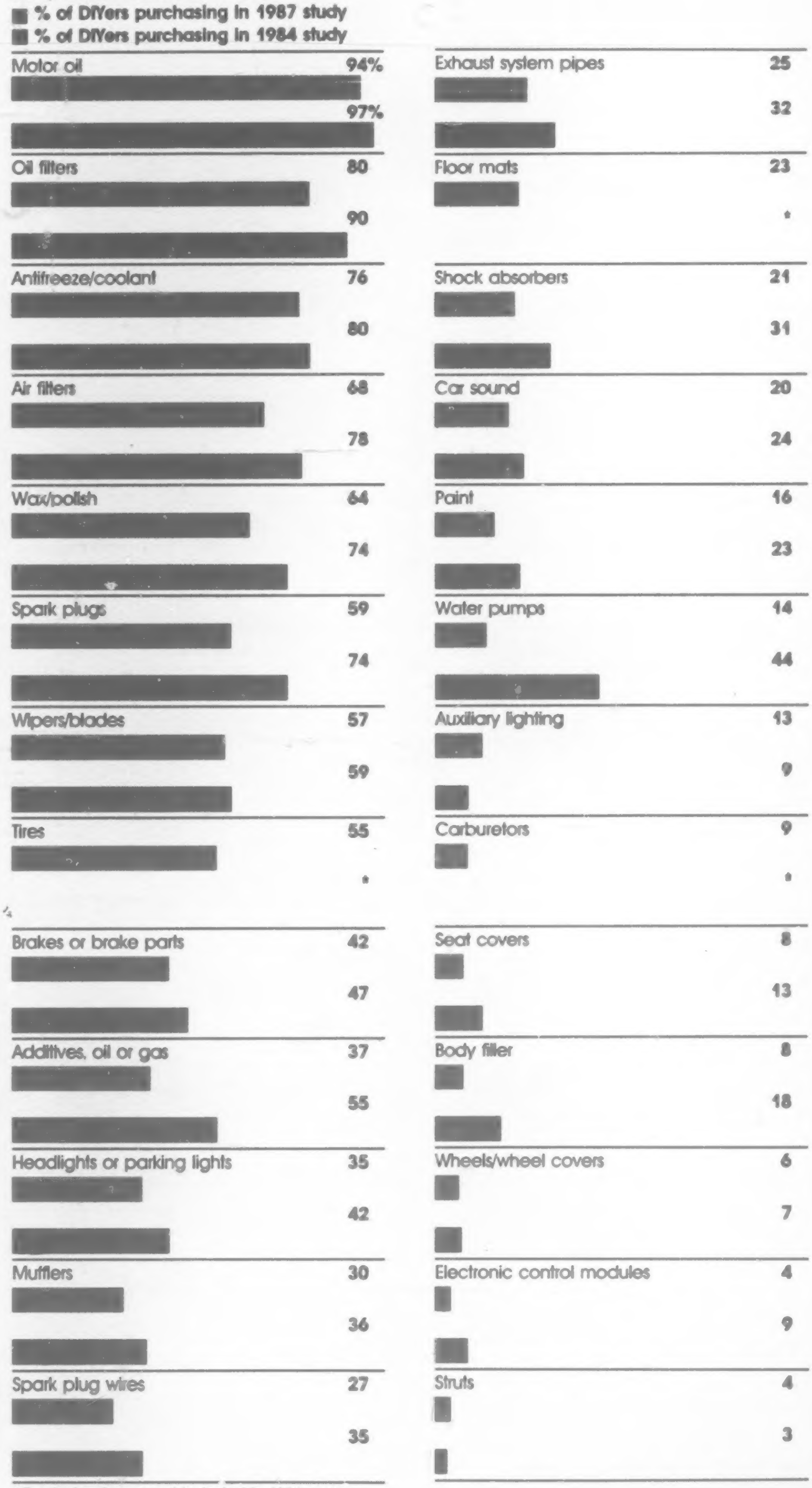
To do this, Automotive Marketing *retained the services of one of the nation's largest professional research firm,* Chilton Research Co. *Its trained researchers telephoned 1,711 households throughout the country. They asked first if there were a motor vehicle owned by someone in the household. In 1,499 cases there was.*

The researchers then asked if the person answering the telephone were responsible for vehicle maintenance. Yes, 1,250 individuals answered. They next asked if the respondent actually did any repairs or maintenance on the vehicle, ranging from simple waxing and polishing of the vehicle to major motor jobs. This question narrowed the respondents to 981. This screening process, designed to produce a base that could be accurately compared to our first DIYer study, the 1984 Vehicle Maintainer Study *(actually made in 1983), yielded the data for the 1987* CARS *study (actually made in 1986).*

These 981 DIYers, ranging from serious to occasional DIYers, who live throughout the country, then were asked the full set of questions about themselves, the cars they owned, and the automotive products they bought over the year prior to our questioning them.

ITEMS PURCHASED

We asked DIYers what products they bought over the year prior to our study. Motor oil was the most popular item, but traditionally slow-moving hard parts finished higher than expected when compared to other accessories.



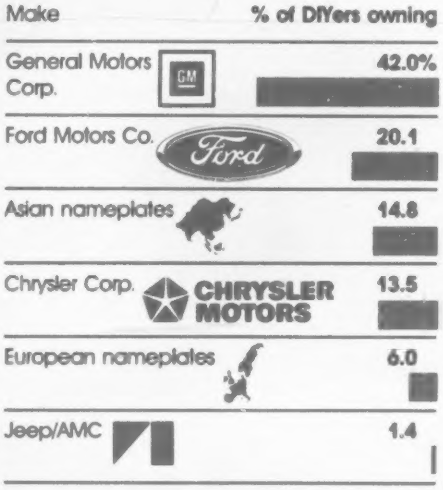
* Product category not included in 1984 study

CONSUMER AUTOMOTIVE REPAIR STUDY

DIYERS AND THEIR CARS

WHAT KIND OF CAR DIYERS OWN

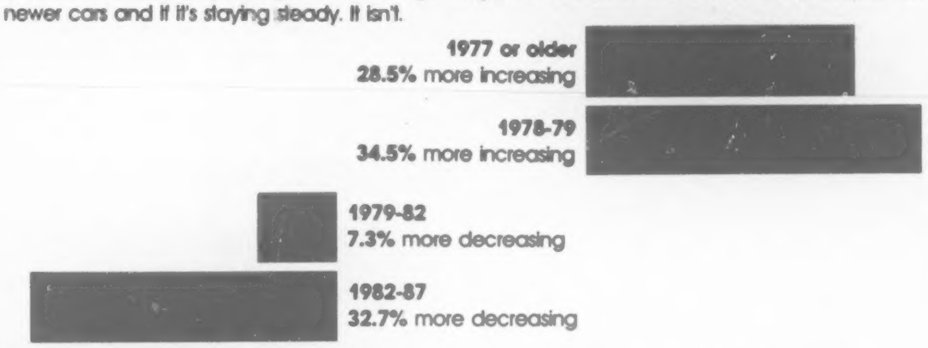
After screening out DIYers who owned two or more cars, we found that domestic-built cars were the most popular among DIYers.



Make	% of DIYers owning
General Motors Corp.	42.0%
Ford Motors Co.	20.1
Asian nameplates	14.8
Chrysler Corp.	13.5
European nameplates	6.0
Jeep/AMC	1.4

VEHICLE AGE AND INCREASING/DECREASING DIY INVOLVEMENT

We matched those who told us their car model years with those who said they were going to increase or decrease the level of their DIY work in the near future. Breaking it out by car year, we subtracted the smaller percentage from the larger to get some idea of the level of DIY work done on newer cars and if it's staying steady. It isn't.



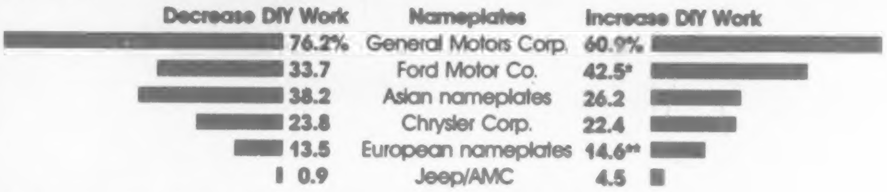
CARS, VANS, OR LIGHT TRUCKS

If the DIYer had only one vehicle, what was it?

Car	86.7%
Light Truck	10.2
Van	3.1

INCREASING OR DECREASING DIY WORK BY CAR MAKE

We asked DIYers with one or more cars, after finding out what type of cars they owned, if they planned to increase or decrease DIY work in the immediate future. Most foreign nameplate car owners planned to decrease what they did themselves—something that bodes no good in an aftermarket serving an increasing number of foreign car owners.



Decrease DIY Work	Nameplates	Increase DIY Work
76.2%	General Motors Corp.	60.9%
33.7	Ford Motor Co.	42.5*
38.2	Asian nameplates	26.2
23.8	Chrysler Corp.	22.4
13.5	European nameplates	14.6**
0.9	Jeep/AMC	4.5

* No owners of Lincolns or Mercuries planned to increase their DIY work.

** 10.2% of Volkswagen owners planned to increase their DIY work, only 4.6% of all other European nameplate cars did.

VEHICLE AGE

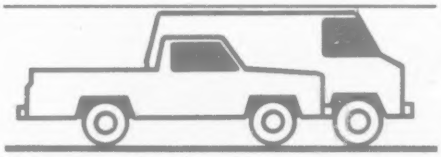
Among all owners of only one car, we asked what model year it was.

Model Year	% Owning
1975 or older	15.2%
1976	4.3
1977	5.5
1978	5.9
1979	7.6
1980	5.9
1981	6.9
1982	7.1
1983	8.5
1984	8.1
1985	12.6
1986	9.7
1987	0.5
Don't know/refused	2.2

PRIMARY VEHICLES

Most light truck and van owners also own another type of vehicle.

Light truck owners who also own:	
3 or more vehicles	48.4%
2 vehicles	38.5
1 vehicle	13.4



Van owners who also own:	
3 or more vehicles	48.0%
2 vehicles	38.8
1 vehicle	3.3

pumps, and 40% of all the seat covers sold over the course of a year.

So, it's not surprising that they are big auto store shoppers. In all, 60.0% of these heavy DIYers visited an automotive parts store at least once a week during the course of a year, while only 40% of those who did an average or less amount of vehicle maintenance work themselves visited an auto store as often.

This group is largely male: In all, 24.9% of male DIYers and 9.7% of female DIYers fall into it. Serious DIYers maintain more vehicles than usual; 32.3% maintaining three or more vehicles, compared to 17.1% with two and 15.5% with one. Among those making between $20,000 and $30,000 annually, 24.5% of the DIYers are these serious DIYers.

Slightly more owners of light trucks and vans are, by the way, serious DIYers than are car owners.

The DIYer's Vehicles

The tremendous sales increases of foreign nameplate cars in the U.S. hasn't affected the DIY market nearly as much as it has the new car market. Where 25.6% of new cars registered in the U.S. were imports, only 20.8% of DIYers drive a car with a foreign nameplate. In all, 42.5% of all DIYers own Chevrolets, while 33.7% own Fords, 12.3% own Oldsmobiles, and 9.7% own Pontiacs (totals equal more than 100% because of multiple vehicle ownership). By way of contrast, the most popular foreign nameplate car among DIYers is the Toyota, and only 9.1% of DIYers own one model or another of this Japanese car.

Obviously, the *average* foreign car owner is generally less willing to work on his car than is the domestic nameplate owner.

The exception to this rule lies in Volkswagen owners. Indeed, the second most popular imported car among DIYers is

the Volkswagen, with 6.5% of all DIYers owning one of these vehicles. And, 18.7% of Volkswagen owners are serious DIYers.

Volkswagen-owning DIYers are somewhat different from other average DIYers. Fully 50% of DIYers who own these cherished cars make less than $30,000 a year. And, contrary to what one may expect, these owners are not always younger individuals. In fact, only 29.7% of Volkswagen-owning DIYers are younger than 34-years-old. This leads one to the conclusion that DIYers who are older than the average DIYer age are buying older models, used, such as Beetles or minivans, as second cars. And, they are maintaining them themselves.

Even so, domestic car owners are a larger group of DIYers than imported car owners. For example, 30.4% of Chevrolet owners are serious DIYers, while 13.5% of Toyota owners fall into this category. In the same way, 20.9% of Ford owners are serious DIYers, compared to the 33.7% of DIYers owning a Ford.

The implication is that, while DIYers generally prefer American cars, those who own foreign ones are more apt to be those important, serious DIYer customers.

Other Vehicle Factors

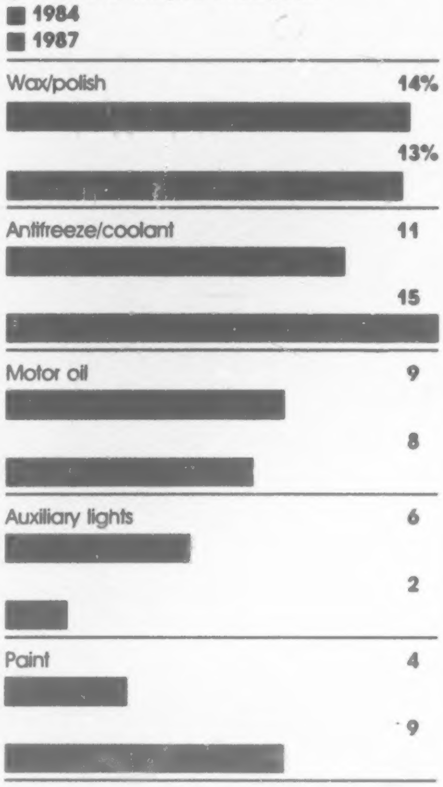
Age is another important factor in determining if someone responsible for maintaining a vehicle does it himself or takes it for professional service. In all, 52.2% of DIYers own 1977 or earlier car models. And, people who own cars this old, own more than one vehicle. For example, 80.5% of those admitting to 1975 or earlier car models own two or more other vehicles. Another 42.0% own 1977 or 1976 vehicle models (again, totals equal more than 100% due to multiple vehicle ownership).

It's obvious, too, that some of the older cars that DIYers own are also older cars. For example, 40% of the DIYers we talked with who owned Lincolns made less than $20,000 annually. Of Cadillacs, 27.6% were owned by DIYers making less than $30,000 a year, an earnings range in which 48.9% of all Buick-owning DIYers fell. The implication is that these once-expensive cars were bought second- or even third-hand and are now aging machines that require constant maintenance. Hence, the large, older American cars still make up an important part of stocking requirements in the aftermarket.

And, the type of vehicle also plays some part in determining what sort of work the maintainer does on it. Only 21.3% of car owners are serious DIYers, while 30.2% of light truck owners and 23.5% of van owners fit into the same category.

PURCHASES AT NON-TRADITIONAL OUTLETS

Three years ago we found that non-traditional outlets such as drugstores, hardware stores, supermarkets, and convenience stores had not yet made serious inroads into the automotive products business, at least as far as DIYers were concerned. They don't seem to have gained ground over the past three years.



Indeed, light truck owners tend to be DIYers in larger numbers than car owners across the board. Only 53.7% of them put in the average one-to-five hours of automotive DIY work monthly, as opposed to 57.4% of car owners. Van owners fall somewhere in between, with 54.1% of them putting in the average hours. As well, only 13.4% of light truck and 13.3% of van owners owned only one vehicle, while 26.2% of all car owners owned only one vehicle. Since owners of more than one vehicle do more DIY work than others, these types of vehicle owners are prime prospects for increased aftermarket sales.

The bottom line? The successful retail chain still emphasizes parts and accessories for older American vehicles, but also offers parts for major jobs for the leading import nameplates.

What They Buy

While there were some significant changes over the past three years in the basic profile of the DIYer, what DIYers actually bought has changed little. In 1984 the top five products were, in order, oil, oil filters, antifreeze/coolant, air filters, and spark plugs. In 1987 the top five products are oil, oil fiters, antifreeze/coolant, air filters, and wax and polish products. Spark plugs traded places with wax and polish products, to fall to the number six slot in 1987.

WHY YOU SHOULD ENCOURAGE DIYERS

In 1984 we found that 25% of serious DIYers stopped in an auto store on a weekly basis. Obviously, since then weekly visits to auto stores among all sorts of DIYers has fallen off, but more people are visiting auto stores than ever.

Percentage that had shopped in an auto store weekly

	1984	1987
Serious DIYers	25%	18%
Study average	7	2
Occasional DIYers	3	0
Percentage that never shopped in an auto store		
Serious DIYers	3	0
Study average	7	3
Occasional DIYers	16	8

What had changed, slightly but perceptibly, was the percentage of DIYers buying these items. Where 97% of all DIYers bought oil in 1984, this year it was 93.5%. Where 90% bought oil filters in 1984, the number dropped to 80% in 1987. Antifreeze/coolant buyers fell 4% over the three years; air filter buyers and wax and polish product buyers fell 10% each.

This trend holds with serious DIYers, too, although on a lesser scale. For example, 28% of serious DIYers bought antifreeze/coolant in 1984, compared to 26.7% who bought it in 1987. Serious DIYers made up 25% of the oil-buying DIY public in 1984; they made up 23.9% of that same group in 1987. This trend, too, holds even with products that DIYers tend to buy less of over a 12-month period. For example, 76% of DIYers who bought batteries in 1984 were serious DIYers; only 28.3% of battery-buying DIYers in 1987 were serious DIYers.

So, to fill the needs of the increased number of DIYers, retailers have to make sure to maintain full product lines. Those who do, and aim their merchandising at the DIYers in their area, should get the advantage of the growing DIY market. ■

CONSUMER AUTOMOTIVE REPAIR STUDY

Motor Oil

Not surprisingly, 93.5% of the DIYers we spoke to purchased oil in the 12 months prior to our study. Some 29.9% purchased the oil at a discount store, 25.5% purchased the oil at an automotive store, and 13.8% purchased the oil at a gas station.

And, 71.6% of these DIYers installed the oil they purchased themselves. They installed it themselves to save money (66.5%) and to make sure the job was done right (11.3%). They also installed their own oil because doing the work gave them personal satisfaction (16.2%).

Of these oil DIYers, 95.8% were male, 54.5% were between the ages of 25 and 44, 56.6% had incomes of $30,000 or less. Some 58.1% of these oil DIYers spend between one and five hours a month working on their cars and 35.4% said their DIY involvement has increased. At least 20.9% of the DIYers were responsible for three or more cars.

Some 87.1% of oil DIYers knew what brand of oil they had purchased. This is among the highest brand recognition of any item on our study. Some 42.1% said they purchased either one or the other of two national brands.

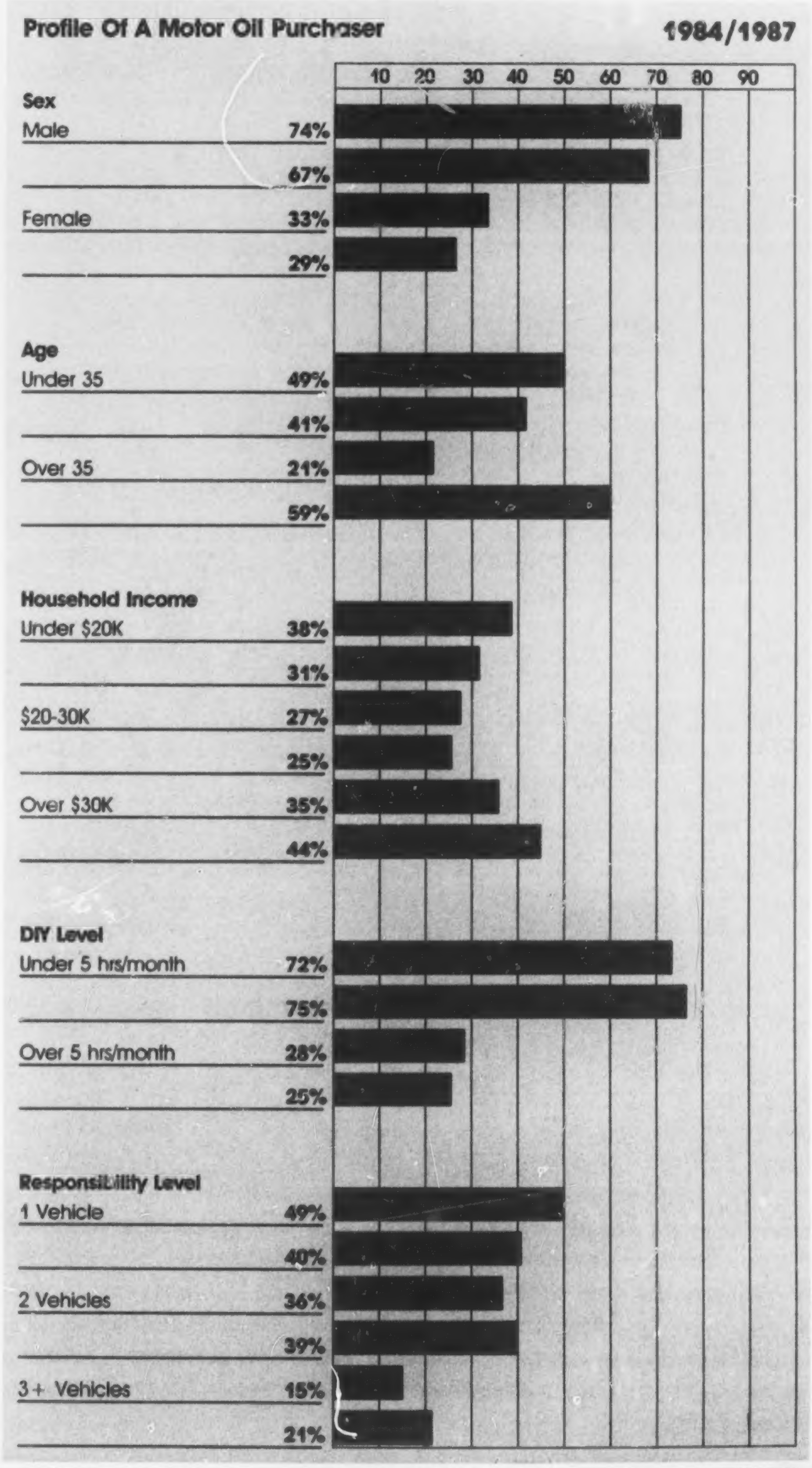
Some 14.4% of the oil DIYers said they purchased the brand they did because they used it before or always used it, a strong indication of brand loyalty.

But it's not loyalty alone that leads DIYers to purchase a certain brand of oil. The oil DIYers said quality (33.2%) and price (31.0%) were the two most important factors they considered when selecting a brand of oil.

Looking at quality, some 8.1% of oil DIYers believed the brand of oil they purchased was the best brand. When it came to price, some 20.7% of the oil DIYers said they purchased the brand of oil they did because it was on sale.

A third factor, "only brand outlet carried," was noted by 15.3% of the DIYers, probably the ones who bought their oil at a gas station.

Oil is a multiple purchase with 33.2% of DIYers buying it three to five times a year and 32.1% buying it one or two times a year. Some DIYers (11.4%) buy oil ten or more times a year. This much buying activity, combined with strong brand loyalty and price sensitivity, means it is important for retailers to carry the right brands of oil at the right prices. ■



CONSUMER AUTOMOTIVE REPAIR STUDY

Oil Filters

Not surprisingly, 80.0% of the DIYers we spoke to purchased oil filters in the 12 months prior to our study. Some 36.2% purchased their oil filters at an automotive store, 26.5% purchased the oil filter at a discount store, and 12.0% purchased the oil filter at a gas station.

And 59.4% of these DIYers installed the filter they purchased themselves. They installed it themselves to save money (72.5%), and for personal satisfaction (17.2%). They also installed their own filter to make sure the job was done right (13.7%). Another 12.2% had the filter installed at a gas station, probably the same gas station where they purchased it.

Of these oil filter DIYers, 70.8% were male, 55.8% were between the ages of 25 and 44, and 53.5% had incomes of $30,000 or less. Some 55.4% of these oil filter DIYers spend between one and five hours a month working on their cars and 34.0% said their DIY involvement has increased. At least 22.0% of the oil filter DIYers were responsible for three or more cars, while 42.3% were responsible for at least two cars.

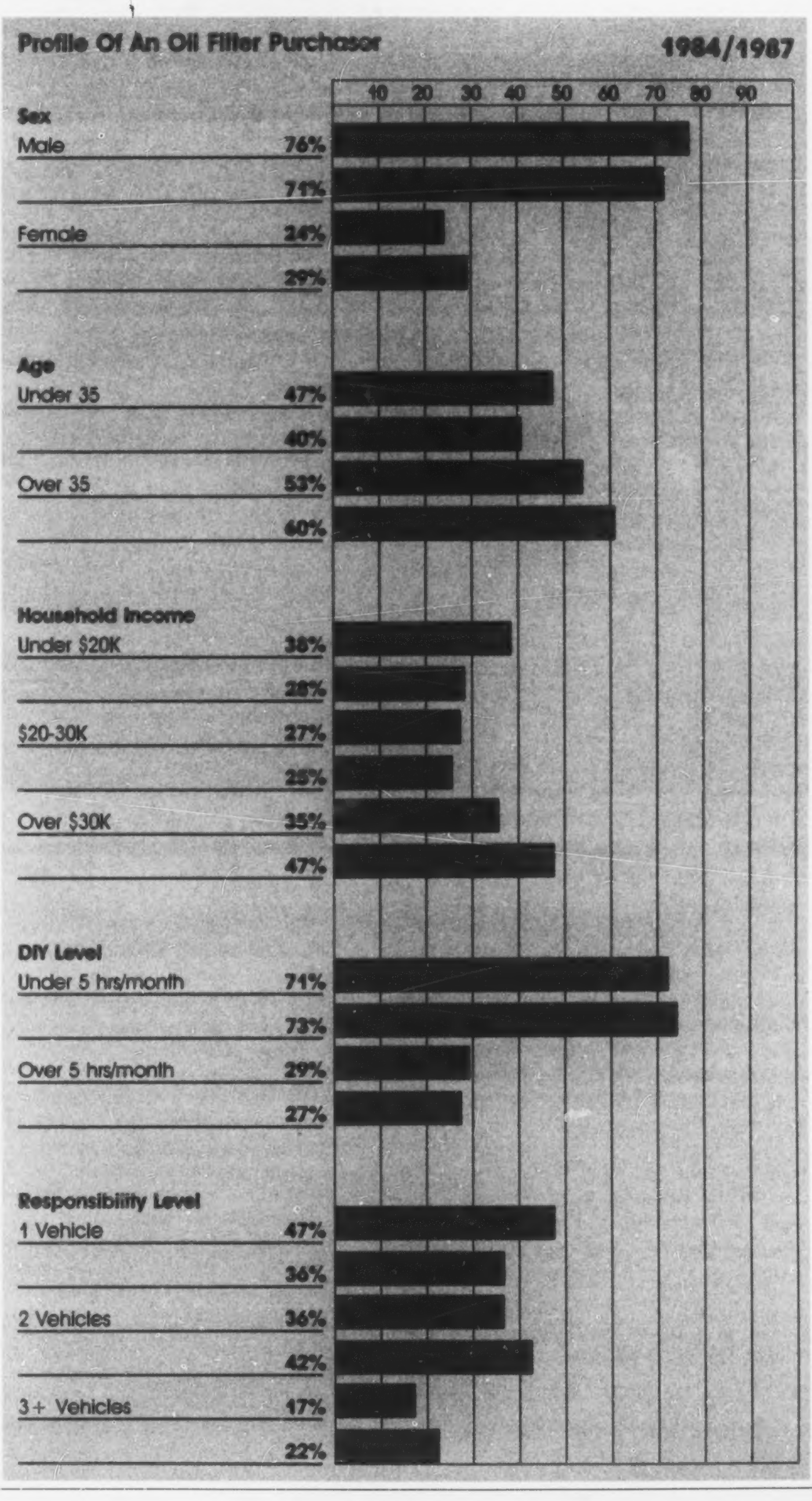
Some 64.3% of oil filter DIYers knew what brand of filter they had purchased. This is among the highest brand recognition of any item on our study, but lower than the 87.1% of DIYers who knew what brand of oil they purchased. Apparently, DIYers are more brand-aware when it comes to oil than they are when it comes to oil filters. Some 29.8% of oil filter DIYers said they purchased one national brand.

The oil filter DIYers said price (28.1%) and quality (19.9%) were the two most important factors they considered when selecting a brand of filter. In fact, some 16.6% of oil filter DIYers said the brand they purchased was on sale. Obviously, oil filter are a price-sensitive item.

A third factor, "only brand outlet carried," was noted by 21.4%.

Filters are a multiple purchase item with 55.6% of DIYers buying filters between two and five times a year. Some DIYers (6.4%) buy filters ten or more times a year.

Nevertheless, there is still a difference between the percentage of DIYers buying oil and the percentage of DIYers buying oil filters. This is a difference smart retailers can take advantage of by pushing the sale of a filter with every oil purchase. ■



CONSUMER AUTOMOTIVE REPAIR STUDY

Antifreeze/Coolants

The industry markets antifreeze/coolant as a commodity product, so it's no surprise that more DIYers in our *CARS* study bought because of price than other reasons. They also bought the product at discount stores more often than at auto stores. A rebate offer swayed brand loyalty in 2.9% of the purchases, but loyalty to this product is extremely strong (46.9%). It's apparent that consumer ads and promotion pay off for this product.

Brand awareness is exceedingly good, too, since none of our respondents misnamed a manufacturer. (Some other products were named incorrectly...like Prestone spark plugs.)

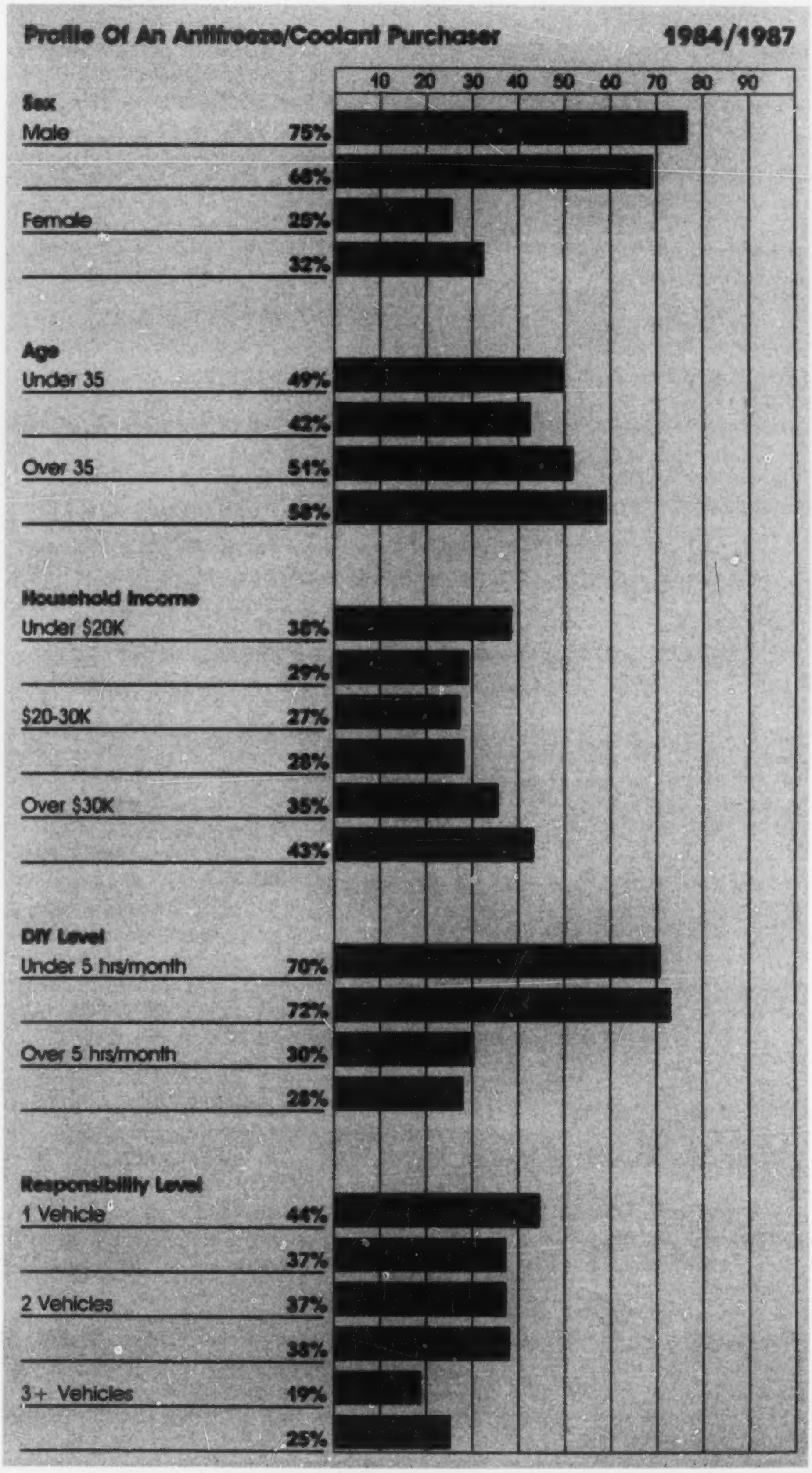
After discount and auto parts stores, consumers purchased antifreeze/coolant at department stores and gas/service stations. Just a hair behind were the supermarket/grocery sales at 8.6%.

Although nearly six percent (5.9%) of the DIY-purchased antifreeze was poured in at a gas/service station, most of our respondents poured it for themselves (76.8%) or had others in the household or friendship circle do it (12%). People poured their own antifreeze/coolant to save money (56.1%), because they like to (19.5%), to ensure that it's done correctly (17.4%), because it's easy (8.7%), or because no one else was around to do it then (6.6%).

While price ranked first in consideration for purchase, our *CARS* DIYers also bought antifreeze/coolant for quality (26.8%), convenience (15%), specific loyalty reasons (13.7%), distribution (12.7%), and advertising (4.0%).

One in four coolant/antifreeze self-installers bought the product twice in the 12 months before we phoned them, and one in 12 had bought it three to five times that year. A higher proportion of DIYers who spend between one and five hours monthly working on their vehicles buy this product than intensive DIYers, and DIYers responsible for one car's maintenance buy at nearly as high a percentage as do DIYers who maintain two cars.

The only surprise in our research into consumer purchase and installation of antifreeze/coolant was that its percentage of purchase had slipped a bit between our comparable *Consumer Automotive Repair Study* done three years ago, from 80% to 76.1%. ■



Profile Of An Antifreeze/Coolant Purchaser 1984/1987

CONSUMER AUTOMOTIVE REPAIR STUDY

Wax & Polish

Who doesn't do it themselves?" we asked about wax and polish in 1984. The answer was virtually nobody, and the same answer holds true today. In our current study, 64.2% of DIYers bought wax and polish, and 90.8% of them applied it themselves. While the percentage of self-appliers was the same before, however, the percentage of DIYers buying wax and polish dropped from 74%.

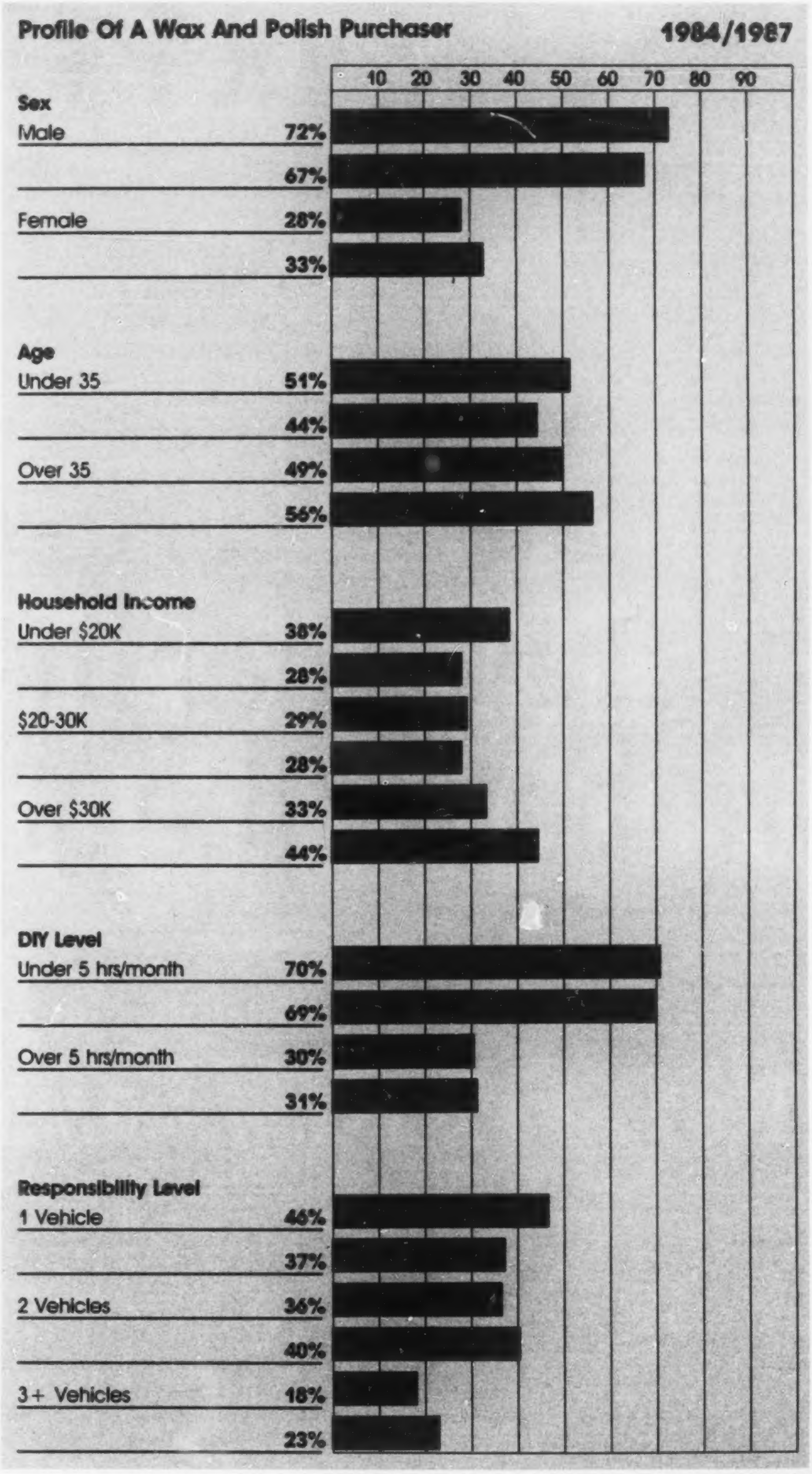
Wax and polish is often purchased outside the traditional aftermarket channels. Yet, in our last study, 49% purchased it in department or discount stores, 26% in automotive stores, and 14% in hardware stores/drug stores/supermarkets. Now, changes in this pattern were minimal, with 52.4% buying the product in department or discount stores, 28.6% in automotive stores, and 13% in hardware stores/drug stores/supermarkets.

As we said, 90.8% of DIYers who bought wax and polish put it on themselves. Even in households where the purchaser wasn't the applier, however, professional help was not sought. Another 7% of purchasers had a friend or relative wax or polish the car.

But, most DIYers don't do this to save money. They do it because they enjoy it (32.9%) or to make sure it's done right (25.2%). Of course, there's the 5.9% who did it because they couldn't find anyone else around to do it, but even they didn't consider cost a factor in who did the job.

DIYers who buy wax and polish are more brand-conscious than buyers of many other types of automotive products. Of them, 59.2% bought well-advertised national brands—Armor All, Raindance, Simonize, and Turtle Wax being the names DIYers most mentioned. As could be expected, therefore, quality was more important in making a brand purchase decision than was price. Only 22.9% named price as the most important factor, while 46.7% named quality. Consumer advertising was cited as the deciding factor by 2.9%. Another 12.1% felt the ease of using the product was the most important reason for buying it, while 12.7% "liked the way it looked."

Most (60.6%) DIYers buy wax and polish products only once a year. However, 52.3% of serious DIYers buy three to five wax and polish products annually. These serious DIYers are the best customers for these products. ■



Profile Of A Wax And Polish Purchaser **1984/1987**

CONSUMER AUTOMOTIVE REPAIR STUDY

Spark Plugs

Some 58.9% of *CARS* DIYers purchased spark plugs in the past year, which makes spark plugs the third most popular repair purchase category behind oil (93.5%) and air filters (68.1%).

Happily for the aftermarket, the percentage of spark plug purchasers has remained almost constant for the four years we've been surveying DIYers.

However, it's important to remember that not all purchasers did the installation themselves. Only 58.5% of our sample group who bought spark plugs actually did the installation themselves. Of the remainder, 21.4% went to a professional mechanic, 9.7% trusted someone else in the house, and 8.7% looked to a friend or relative.

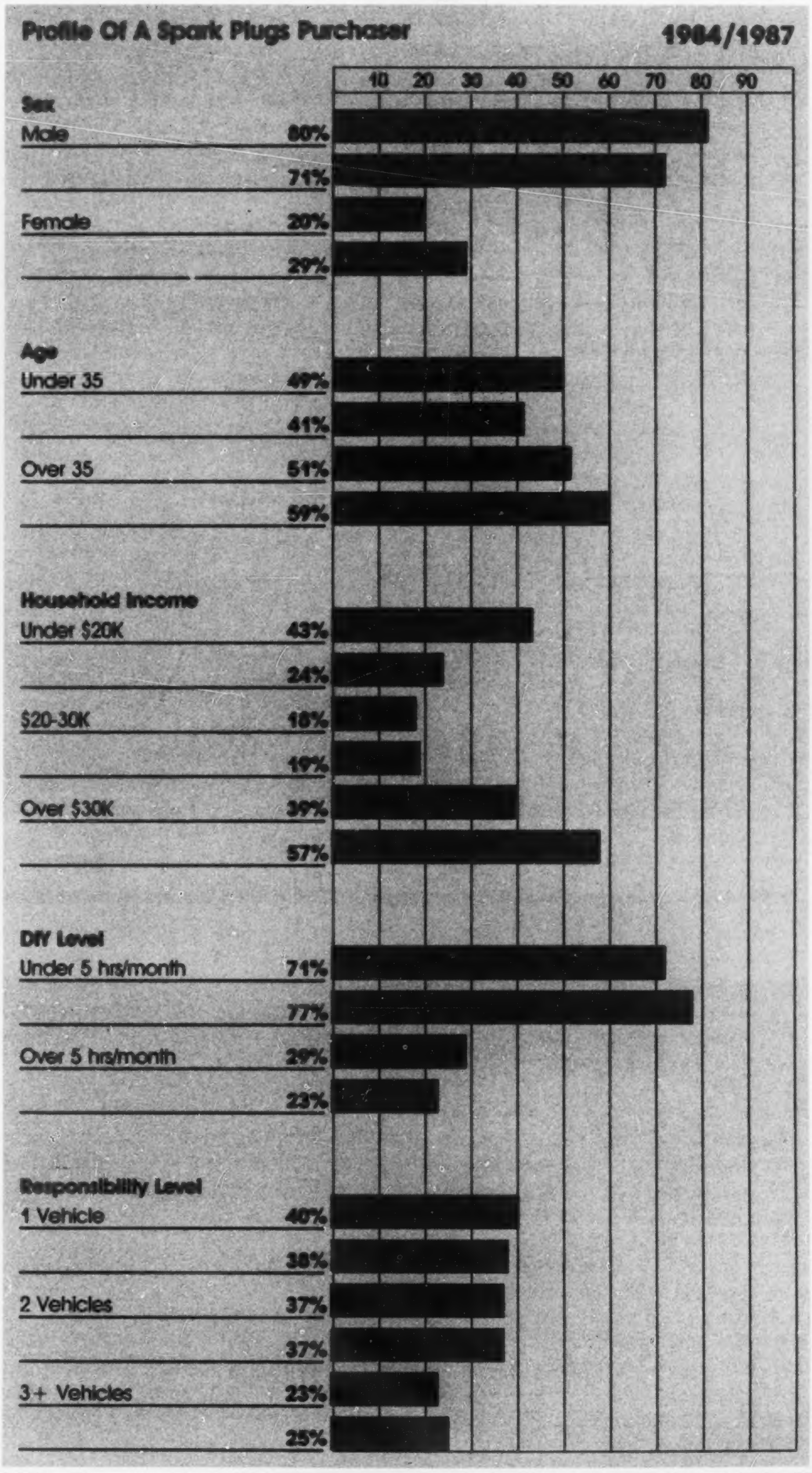
Age and income had little effect upon DIY work. But, as you might expect, serious DIYers were much more likely to actually install the spark plugs they purchased. Also, 84.6% of those DIYers responsible for three or more cars installed their own plugs.

Of the installers, 62.1% said the key reason was to save money. A small but important 17.8% said they did the job to make sure it was done right. There were also 14.8% who simply did the job for personal satisfaction or enjoyment.

Automotive stores were the preferred place of purchase with 64% of DIYers choosing the auto store. A distant second was the discount store with 12.1%. The more serious the DIYer, the more apt he is to shop the automotive store; 76.9% of DIYers spending 11 hours or more a month on DIY work shopped automotive stores compared to 58.5% of those who spent less than one hour a month.

Although 29.1% could state no reason for selecting a brand, quality and price ran fairly close as reasons for brand selection in those who did. About 21.5% said quality was the main reason for purchase, and 20.1% picked price (14.5% because the brand was on sale or special). Other reasons included 18.7% who went for a brand that fit their car, and 14.2% who had no choice at their store.

Many DIYers bought spark plugs more than once a year. Some 18% bought twice, and 6.8% three or more times. As might be expected, the majority were DIYers responsible for more than one car. However, 13.2% of one-car DIYers also fell into this category. ■



CONSUMER AUTOMOTIVE REPAIR STUDY

Spark Plug Wires

As we've found before, DIYers buy spark plug wires only half as often as they buy spark plugs (58.9%). This year, some 26.9% of *CARS* DIYers bought spark plug wires. This suggests that most cars have their wires changed about every fourth year, or, about every 30-40,000 miles at current annual mileage rates.

Checking and replacing spark plug wires is slightly more difficult than simply replacing plugs, so serious DIYers showed up frequently on our study. While serious DIYers made up only 19.7% of the DIYers on the cars study, they made up 29.2% of the spark plug wire buyers, and 36.6% of those who actually installed the wire.

However, a high percentage of all spark plug wire purchasers did their own installation, some 70.5%. Only 12.9% went to professional mechanics.

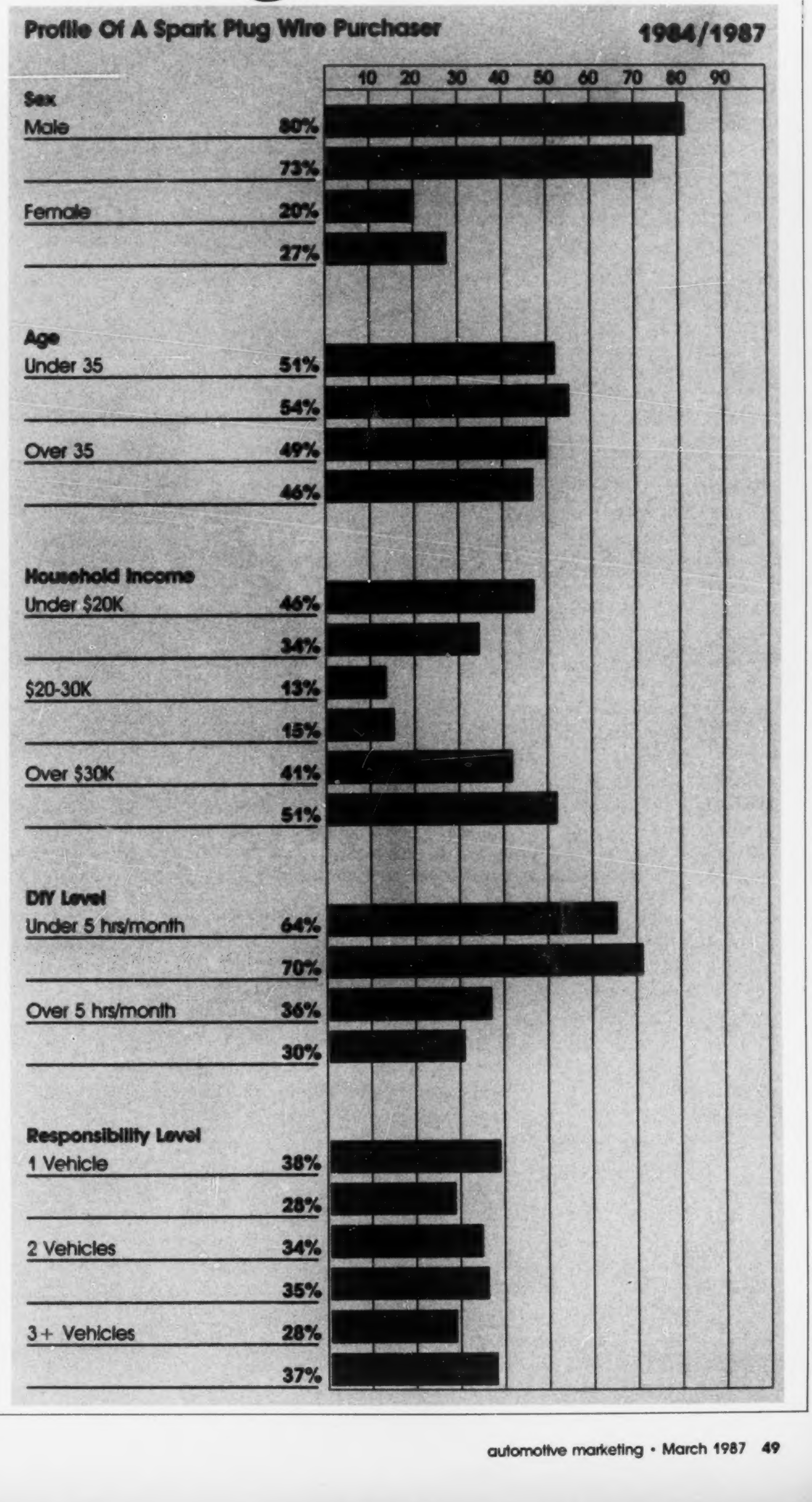
Accordingly, automotive stores did very well with spark plug wire purchasers. Some 68.9% bought the wires in an auto store, virtually the same percentage of those who installed their own wires.

Why did DIYers install their own spark plug wires? Mainly to save money, said 65.6% of the installers. Another 17.2% did it because they enjoyed the work, and 16.1% wanted to make sure the job was done right. There was also an interesting 2.2% who did the job because there was no one else to do the repair at the time it was done.

Brand recognition is very low in the spark plug wire category, although all the brands mentioned actually do make spark plug wires (in some categories we had some strange brands mentioned such as Raindance struts). But an overwhelming 59.8% did not know what brand they'd purchased. In line with this, a miniscule 1.5% of the consumers on our study recognized the brand, and less than 1% had seen it advertised.

Once again, quality and price ran close as chief reasons for buying a particular brand. At 22%, quality was the deciding factor by a hair over 20.5% buying for price. And, 19.7% purchased a brand simply because it was the only one the store carried, emphasizing the importance of distribution in obtaining market share.

Only 11.4% of DIYers made more than one purchase and almost all of these maintained more than one vehicle. ■



CONSUMER AUTOMOTIVE REPAIR STUDY

Batteries

Overall, the battery market hasn't changed much in the past three years. In 1984, 41% of DIYers reported buying a battery over the previous year; in 1987, 39.7% did the same. The good news is that this is one of the few product categories overall not to show any significant drop over the past three years.

In 1984, 28% of DIYers said they bought batteries at automotive stores; 46% at discount or department stores; and 11% at gas stations or independent garages. Again, the picture has changed little. In our 1987 study, 24.7% of DIYers bought batteries at automotive stores; 48.5% at discount or department stores, and 13.4% at gas stations or garages.

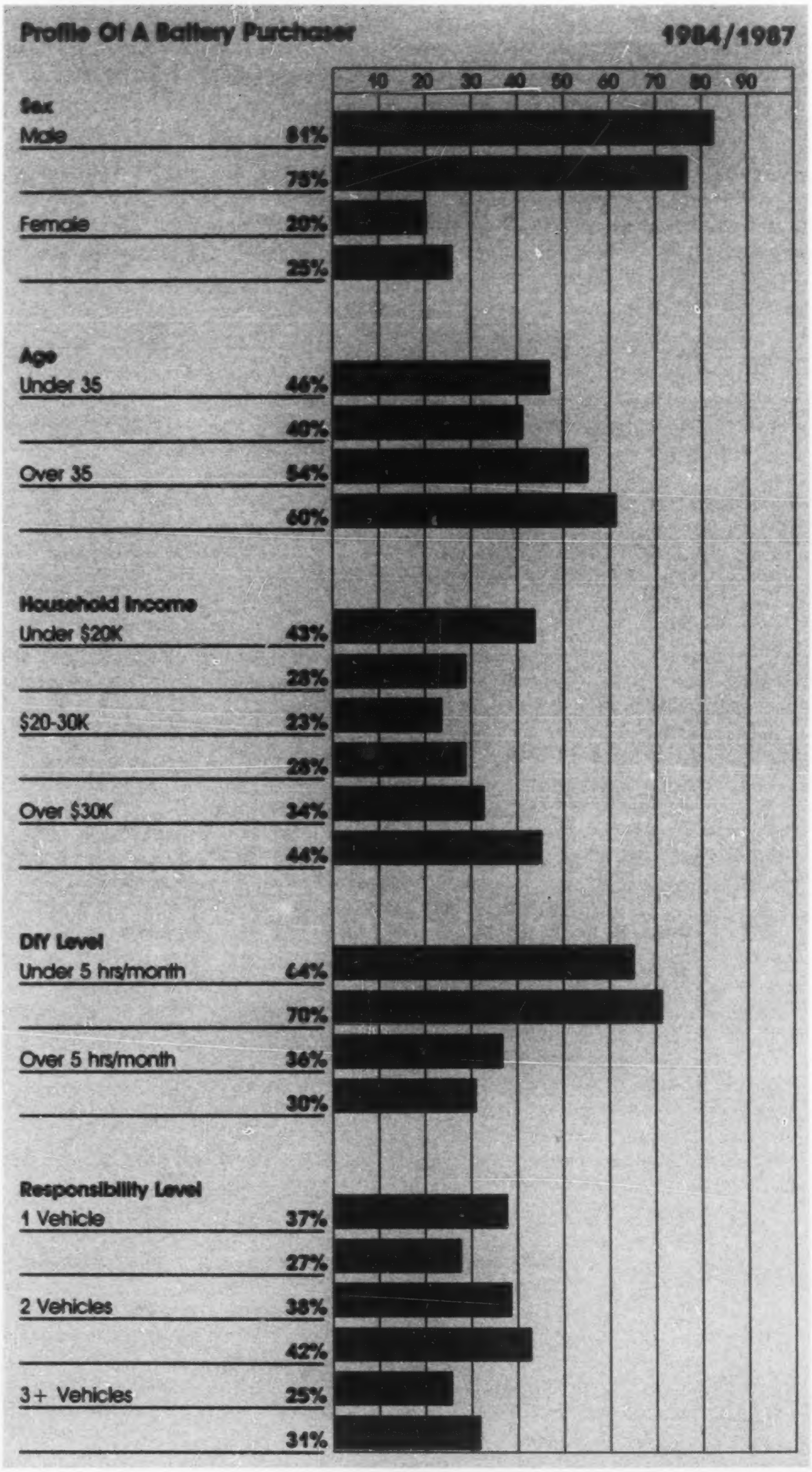
What may come as a surprise is a major change in installation trends. In 1984 we noted, "Because so many stores offer free installation with the purchase of a battery, we assumed that battery DIY work would be one of the lower categories of DIY work; and, indeed less than a quarter (23%) of the study said they had done installation themselves." In 1987 the picture was quite different; 52.1% of the respondents did the work themselves, while 9.3% had the battery they purchased installed by a relative or friend.

In 1984 we wondered "why should a DIYer buy at a traditionally more expensive outlet and then not take advantage of their service?" We're still wondering.

And, what makes us wonder more is that 63.9% of DIYers said they did it themselves "to save money." Only 10.9% did it for the fun of it, while 18.8% wanted to make sure the job was done right.

It must be that there are a lot fewer retailers who both sell batteries and offer free installation than we assumed.

Battery-buying DIYers apparently are a lot less brand conscious than we assumed, too. When we asked what brand they bought, we heard that they bought all sorts of interesting brands: Fram, Autolite, Champion, Pennzoil, and Armor All among them. With this sort of brand consciousness, it's no big surprise that a low price was the biggest reason for buying what they did among 45.5% of DIYers, while only 27.3% mentioned quality. A significant 11.3% noted that it was the only brand carried where they bought it. Since the average DIYer only buys a battery when he needs it, it's up to the retailer to sell him what he needs. ■


Profile Of A Battery Purchaser 1984/1987

CONSUMER AUTOMOTIVE REPAIR STUDY

Oil & Gas Additives

The serious automotive DIYer spending more than six hours a month working on vehicles, is sophisticated enough to know the advantages of using gas and oil additives, so he buys them. He may be responsible for older vehicles in need of performance boosters, and he may work on newer vehicles benefiting from fuel injection engine additives. Slightly more than one third of our *CARS* study respondents purchased the products within the year before our call. That compares with 55% incidence of purchase in our *Vehicle Maintainer Study* published in 1984. Our data doesn't give us clues to the reasons for the vast drop.

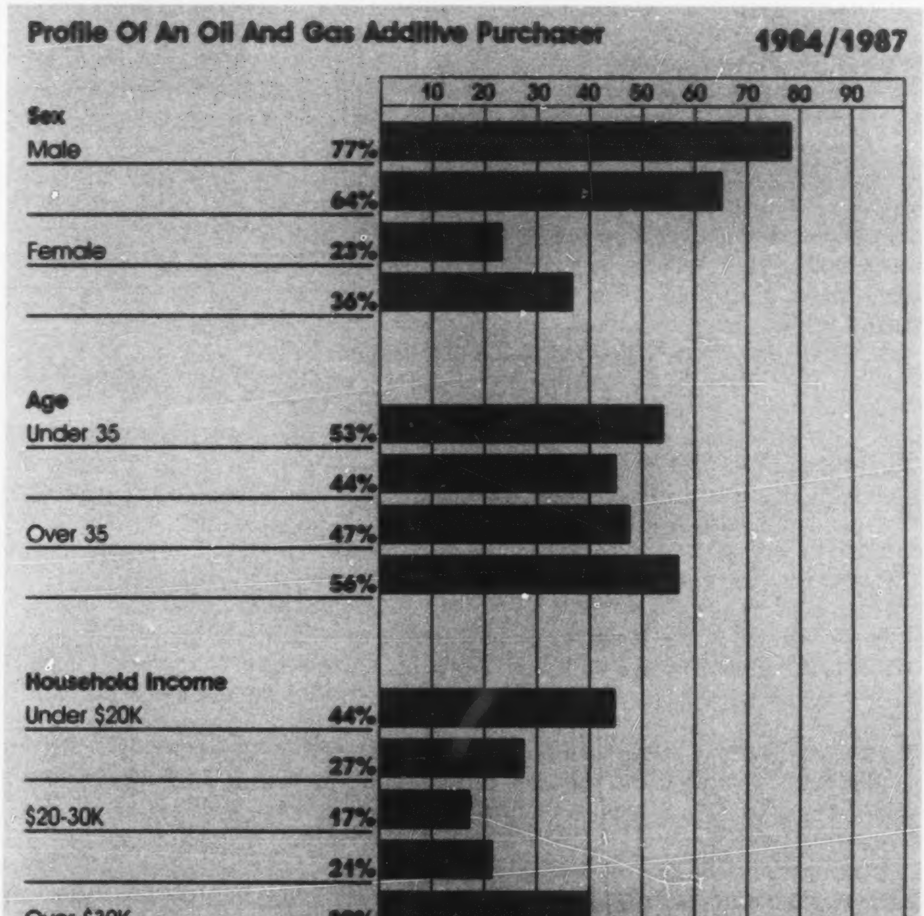
People bought these chemicals at auto stores to the greatest extent (33.5%), with discount stores accounting for 25.8% of purchases. Gas/service stations took 18.7% of the available business.

Buyers of these products installed them themselves 78% of the time. When other household members, family and friends are added in, the total is 87.9%. Gas/service stations accounted for only 6% of the installations.

People used the chemicals themselves for obvious reasons; saving money was foremost (61.3%). Personal satisfaction ranked next at 15.5%, and the lack of other people to do it accounted for 12.7% of the self-installers. "It's easy," said 8.5% of our DIYers.

When queried why they chose a specific brand of additives, our DIYers told us that price and quality were equally important to them in this category (Both were cited as the primary reason for purchase in 27.5% of our interviews.). If the nearly 10% of "always use that brand" responses were added, either price or quality would clearly lead but our DIYers didn't tell us that they "always used" the products because of price *or* quality. Slightly more than 12% of our additive buyers said they bought a brand because it was the only one on display when they shopped.

Since products like these are often added when fuel is purchased, it's no surprise that these products are purchased frequently. Our additive installers bought at these frequencies: once during the previous twelve months, 30.2%, twice 23.6%, three to five times 28.6%, between six and ten times, 8.2%, and more often than ten times that year 8.2%. ■



CONSUMER AUTOMOTIVE REPAIR STUDY

Headlights

There's no doubt that headlights and parking lights are products sold when consumers need them. With the exception of improving driving visibility by buying up to halogen beams, the only reason for replacing these utilitarian parts is need. Within our 1987 *CARS* study, 34.9% of our interviewees had bought head or parking lights within the past 12 months. This is one of the few product categories where the buyers of the product also declared that they were doing less DIY work than before. That dovetails with the demographics of the headlight/parking light buyer: he/she is somewhat older than buyers in other categories, with 25.3% of light purchasers saying they're older than 55.

Auto parts stores get 56.1% share of sales with our *CARS* parts buyers, while discount stores ring up 25.1% of the purchases. Gas/service stations sell 7.6%, department stores 5.3%, while car dealerships take 3.5% of sales.

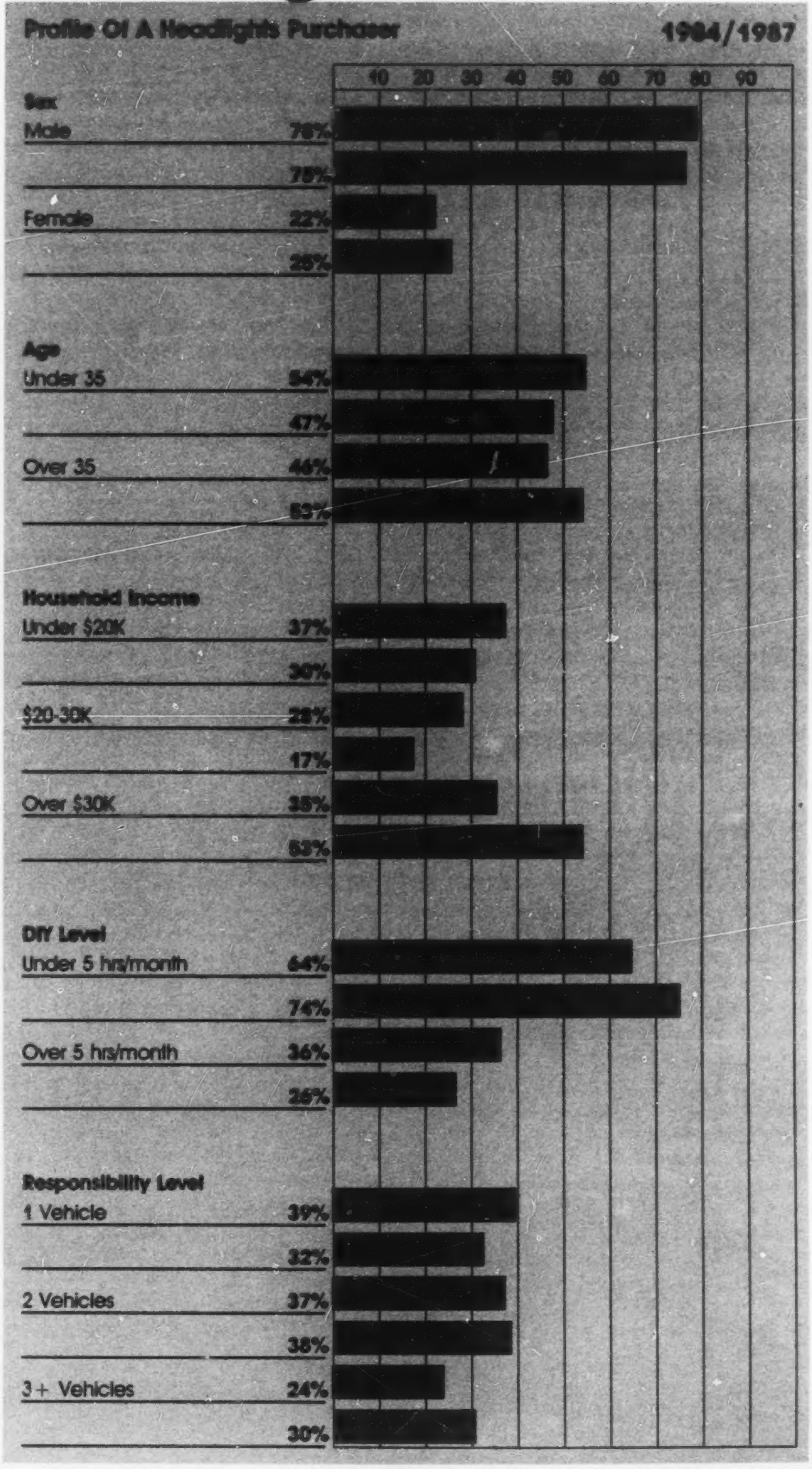
When our DIYers bought head or parking lights, they installed them themselves at a rate of 72.5%. Other household members installed 7.6%, and gas/service stations performed the task 7% of the time.

People who installed the lamps which they bought themselves did it to save money 70.2% of the time, for personal satisfaction 14.5%, and to make sure it was done correctly 11.3%.

Since these are products not yet developed as discretionary purchases, rather than necessities, brand awareness and loyalty aren't important factors with the DIYers. More than half (53.8%) didn't know the brand name of the headlight or parking light they had purchased, and the highest brand mention merited only 20.5%.

"A light is a light is a light" might be the motto of our light-buying DIYers. They bought a brand because of price (24.6%) or because of distribution (24.6%), for quality (12.3%), or because it fit the vehicle (10.5%). They bought only once within the preceding twelve months in 75.4% of the cases.

It's clear that unless suppliers and retailers see justification for developing the product category, headlights and parking lamps will continue to be bought only when needed. That's not true of the auxiliary lighting products, however. ■



CONSUMER AUTOMOTIVE REPAIR STUDY

Auxiliary Lighting

In all, 12.8% of the DIYers we contacted purchased auxiliary lighting over the past year. A significant percentage of them bought these lights not necessarily for their own use, but for friends or relatives as gifts.

DIYers shop for auxiliary lights in the traditional channel—48.4% of them bought their lights at an automotive store. Otherwise, 22.2% bought them at discount stores, followed by 11.9% who bought them at department stores.

Most DIYers who buy auxiliary lights install them themselves. In all, 63.5% of DIYers buying the product installed them themselves, while another 11.9% had the lights installed by "another household member" and 7.1 had them installed by a friend or another relative. In the latter cases, the lights were probably gifts—indicating that they should be merchandised at gift-giving seasons.

There is a significant difference between 1984 and 1987 in terms of auxiliary lighting installation among DIYers. In 1984, 83% of DIYers installed them themselves—a considerably higher percentage than those who did the job themselves in 1987.

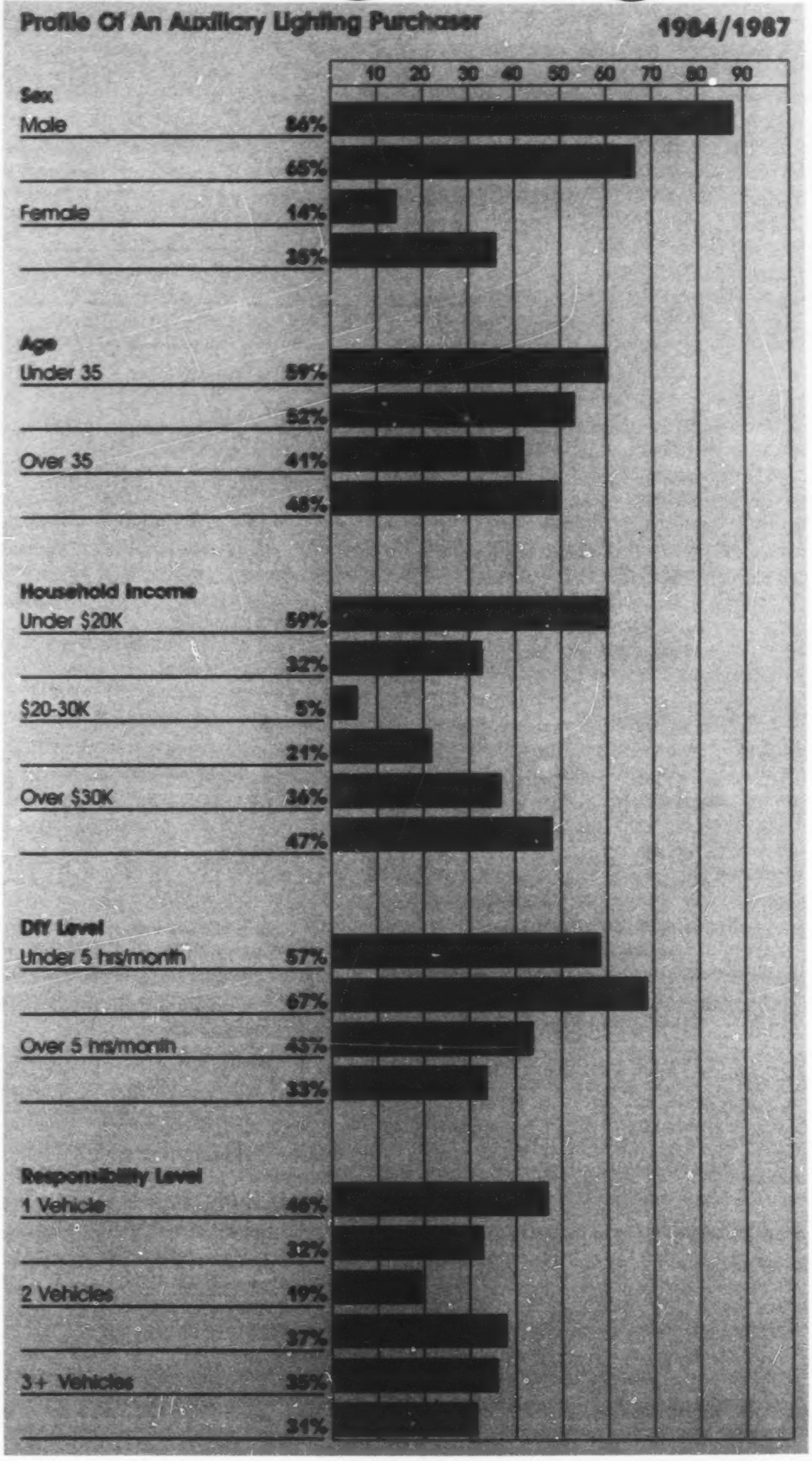
Most DIYers (66.3%) who installed the lights themselves did it to save money. Only 21.3% did it for the fun of it.

Therefore, it's not surprising to find that price considerations were the major reasons given for buying the brand of auxiliary lights the DIYers did. In all, 35.7% said they bought the brand they did because of price, while 11.9% cited quality reasons, 4.0% cited purchasing convenience reasons, and 0.8% mentioned advertising.

However, a significant 10.3% said they bought the brand they did simply because they were the only brand in stock that fit the vehicle they were being purchased for. Having sufficient coverage is therefore important in selling auxiliary lighting.

Auxiliary lighting is the kind of product a DIYer tends to buy only once a year. Only 16.7% of all DIYers who bought auxiliary lights bought the product twice or more over the course of a year.

In summary, then, the average DIYer does not buy auxiliary lighting often. But, when he does he looks for auxiliary lights that fit the vehicle, at a reasonable price. Then he installs them himself. ■


Profile Of An Auxiliary Lighting Purchaser 1984/1987

CONSUMER AUTOMOTIVE REPAIR STUDY

Shock Absorbers

The percentage of DIYers who purchased shock absorbers showed a sharp decline on this year's *CARS* survey compared with our similar study published in 1984. Some 21.2% had purchased shocks in the past year as compared with 31% who'd purchased shocks on the 1984 *CARS*.

Most likely, this doesn't mean a drop in shock absorber DIYers, it simply results from the greater number of front wheel drive vehicles equipped with struts on the road today. On these cars, only the rear wheels are fitted with shocks and consequently their shocks last much longer.

Almost half (46.2%) of the purchasers did their own installation, and another 5.7% had the work done by friends or relatives. Of those who had the shocks installed, retail aftermarket stores with service facilities attracted 19.2%. Interestingly, automotive stores with service got 10.6% of these, compared with department/discount stores' 8.6%.

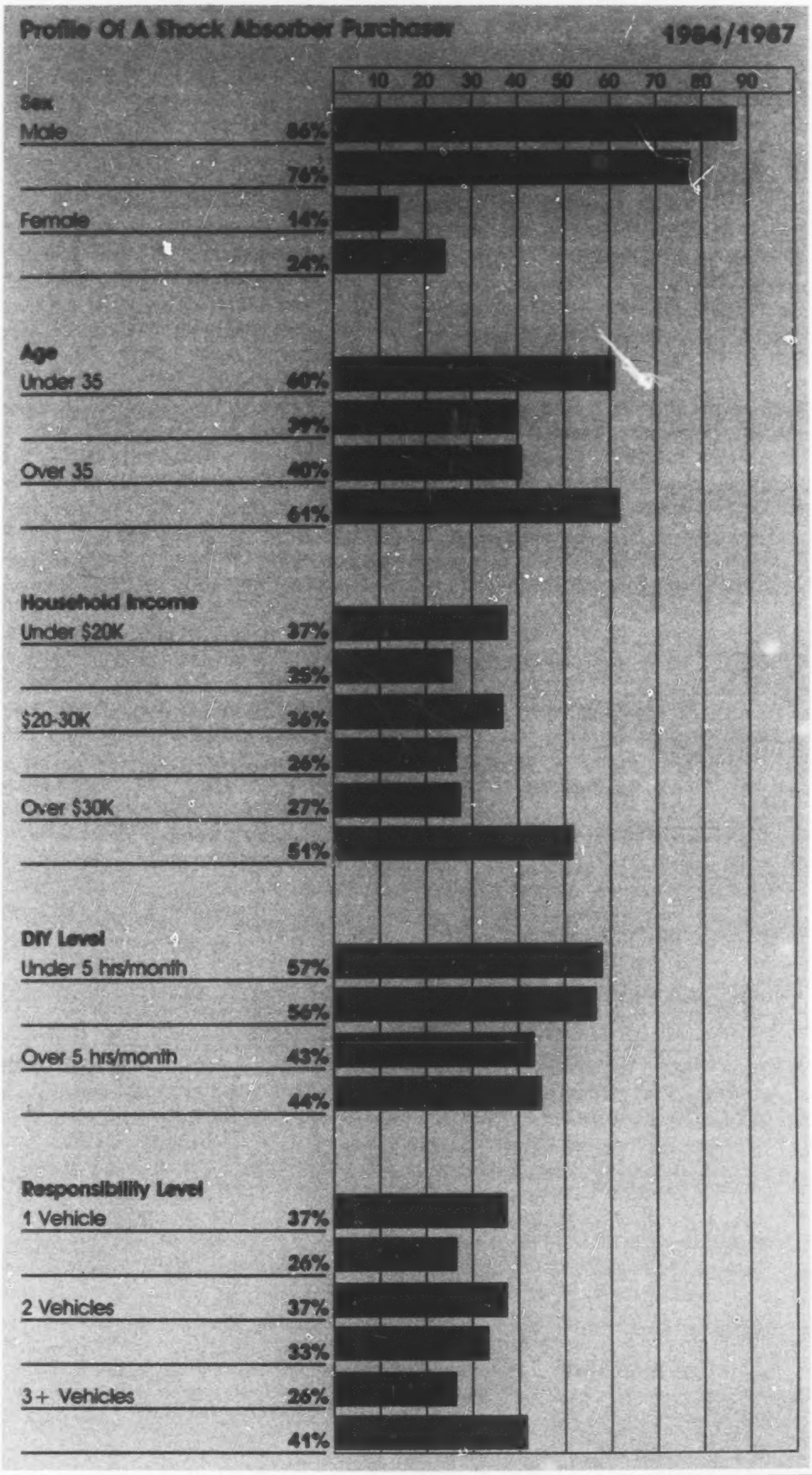
Between DIYers purchasing for their own installation and those buying for store installation work, the retail aftermarket enjoyed an overwhelming 71.1% of all purchases of shock absorbers.

The breakdown of those purchasers who went to professionals for installation was interesting. Specialty installers and professional mechanics at traditional repair facilities ran close together with 14% and 13% respectively. We thought the specialty installer segment would have done better.

The self installers of shock absorbers were 95.8% male. The major reason for doing the job was to save money, a reason named by 66.7% of the DIYers.

Only 33.7% were not aware of the brand they bought, which suggests that the makers are doing a good job of consumer advertising. But we do wonder about the DIYer who claimed to have bought Raindance shocks.

Quality was the leading reason for buying one brand over another. Some 34.6% gave this as a reason for selection. Price determined the brand selection for 31.7%, including 21.2% who went for a sale. In shock absorbers, as in many other products, it seems DIYers shop by the store's reputation rather than brand. Some 9.6% bought a brand because it was the only one available. ■



CONSUMER AUTOMOTIVE REPAIR STUDY

MacPherson Struts

Although the 4% of *CARS* DIYers who purchased struts in the 12 months preceding the survey is still substantially less than those who purchased standard shock absorbers (21.2%) in the same period, we felt that that the time had come to break out struts as a separate category on the *CARS* report.

Does this mean more people are installing struts? It's not likely. The common wisdom in the aftermarket is that struts will last longer, and since replacement requires special tools, they will be primarily a professional replacement item. The *CARS* results support this contention.

For one thing, the percentage of strut purchasers on this year's CARS study has actually gone up only 1% since the 1984 *Consumer Automotive Repair Study* when 3% had bought struts. This suggests that despite more strut-equipped vehicles on the road, the number of strut replacements is still low.

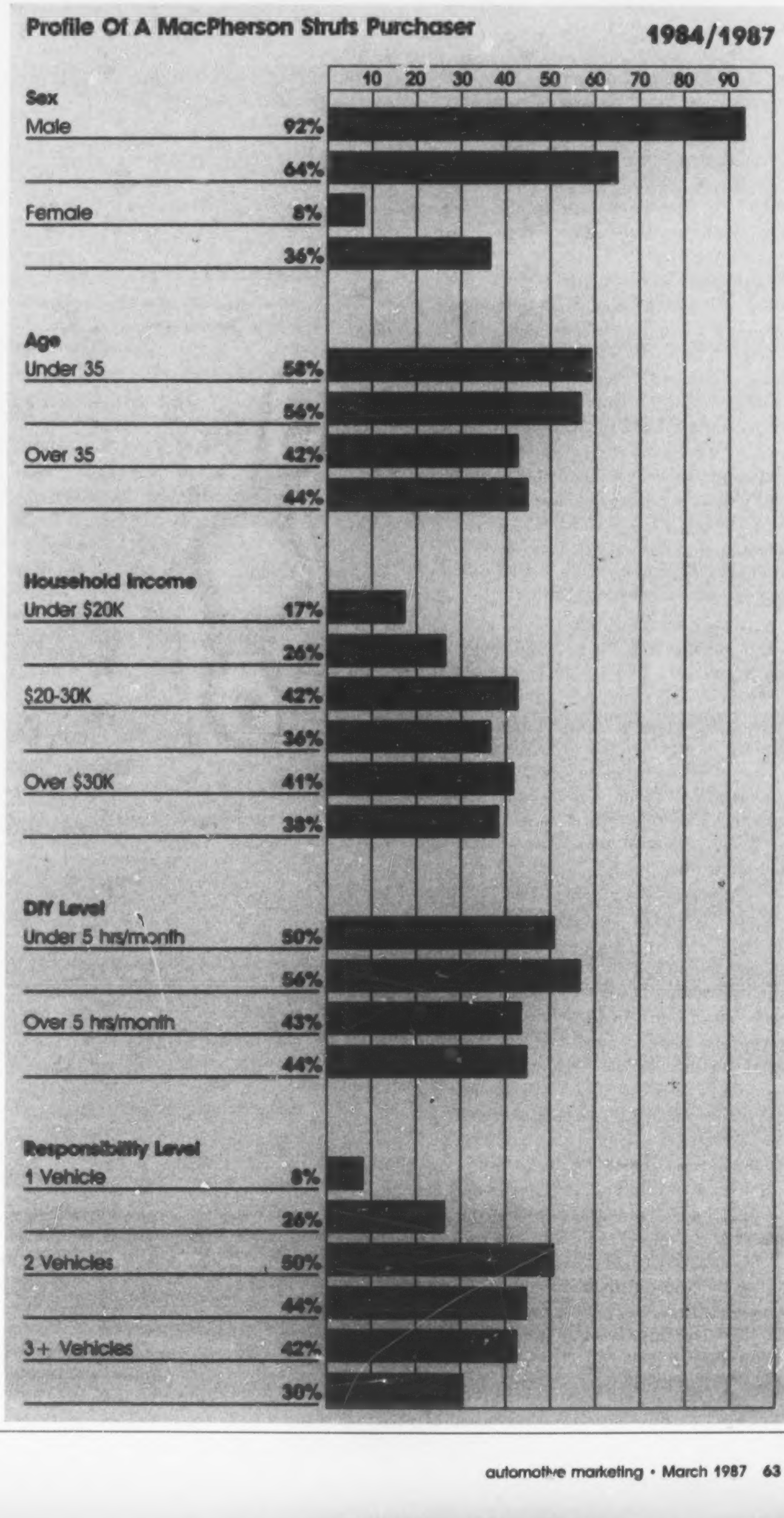
In terms of DIY work, the number of purchasers actually installing the struts was very low: only 26.3%, with another 10.6% farming the job out to a friend or relative. This left 63.1% of *CARS* DIYers who were not DIYers when it came to struts.

The data on those who installed their own struts is interesting. Strut DIYers were all male, all under 44, all serious DIYers, and 63.2% found that their DIY level of involvement had increased over the past 12 months.

The reasons for doing the job themselves were split evenly between saving money and personal satisfaction.

Brand awareness was very low. Over half the purchasers (52.6%) had no idea what brand they'd purchased, and another 10.6% named brands that don't exist. Price was the number one reason for purchasing a particular brand (31.6%), with quality as a seond choice at 26.3%. Of those who bought on price, 83.2% bought because the struts were on sale or special.

While this low percentage of strut DIYers does not seem encouraging for DIY work, it does indicate that some DIYers will tackle strut replacements and there's no reason to write off the category as a potential DIY sale. In strut replacements, DIY training and the availability of proper tools will be the key to DIY work. ■



CONSUMER AUTOMOTIVE REPAIR STUDY

Mufflers

The incidence of muffler purchase by a DIYer has decreased during the last three years since our 1984 *Consumer Automotive Repair Study* (from 36% to 30.2%), and it's no surprise. With new technology such as the stainless steel material lengthening the OE product life, and the huge funds pumped into the specialty installer market these days, muffler customers are driving into specialty service bays.

But there are still three out of ten of our *CARS* DIYers who bought mufflers within the 12 months preceding our research firm's interview with them. They bought the products at specialty installers 39.9% of the time, and at automotive parts stores 35.8% of the time. Sales were made by independent garages (7.4%), department stores (4.7%), car dealerships (4.1%), and gas/service stations and discount stores (3.4% each).

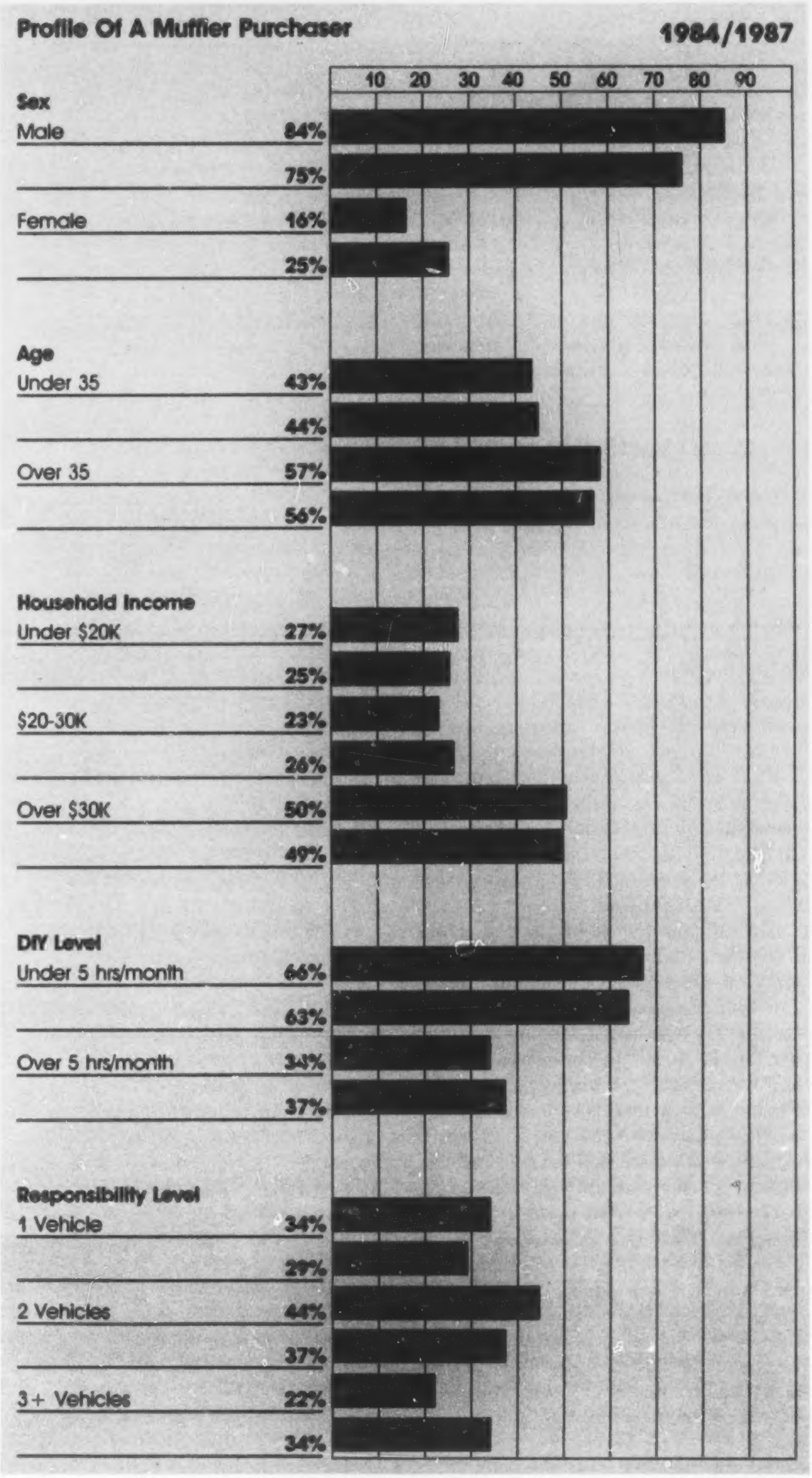
Some (23.6%) of the purchasers installed their own mufflers, but 17.6% had the professionals at auto stores with service bays do it for them. Independent garages installed 6.8% while gas/service stations put on 4.1%.

Of our phone interview sample of nearly 1,000 people, only 35 bought and installed their own mufflers. Of those, 26 installed it to save money, six because of personal satisfaction or enjoyment, and five to make sure it was done correctly.

We were puzzled that 52% of the muffler consumers in our study couldn't recall the name of the brand they had purchased (highest name recall was a mere 14.9%). So we assume that consumers choose an outlet to purchase from and then trust their outlet of choice to carry merchandise of high product value to meet their needs. Distribution, price, and quality carry equal weight with the consumers in terms of why they purchased a particular brand of muffler (between 23 and 24% each).

We found that 92.6% of our interviewees who'd purchased mufflers had done so only once the year preceding our research.

Overall, given new, better, stronger, longer lasting mufflers, and the growing strength of the specialty installer, this is a product which bears watching for turns, profitability, and ROI. Individual SKUs are a great prospect for direct product profit analysis. ■



Profile Of A Muffler Purchaser **1984/1987**

CONSUMER AUTOMOTIVE REPAIR STUDY

Exhaust System Pipes

Among the DIYers interviewed by *Automotive Marketing*'s research firm for this 1987 *CARS* study, there were fewer who purchased exhaust system pipes than in our similar 1984 *Consumer Automotive Repair Study*. In 1984, 32% of our do-it-yourselfers had purchased pipes during the preceding 12 months: this year only 24.9% had bought product within the category.

The pipe data corresponds with that on mufflers; fewer customers because of longer lasting equipment, and fewer DIY installations because of the increasing strength of specialty installer segment.

We found that 32% of the pipes were bought at a specialist (vs. 11% three years ago). Autom[illegible] parts stores still sold the most product (39.2%), and independent garages trailed behind in third place at 8.2%.

When the DIYer purchased exhaust system pipes, he himself installed 31.1%, and he chose the specialty installer to install 30.3% of the time. Automotive stores with service facilities grabbed 13.1% of the installation business from the DIYer who'd bought the pipes, but independent garages installed only 6.6%, and car dealerships 1.6%.

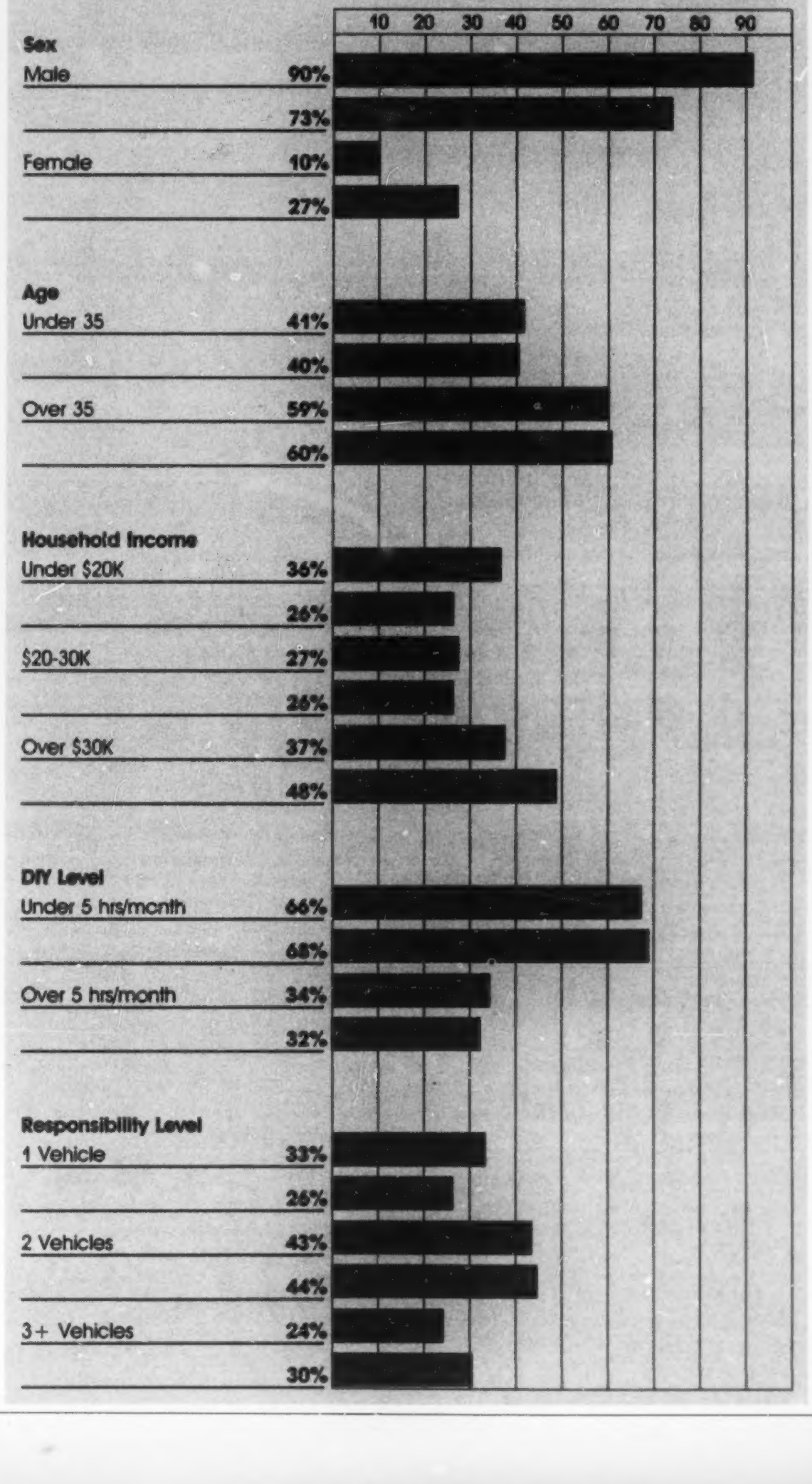
Our sample of nearly 1,000 consumers yielded only 35 people who bought and installed mufflers themselves. Three more (38 total) bought and installed their own exhaust system pipes. Why? Twenty five (65.8%) did it to save money, the rest to assure themselves of a good job or because they liked to do it.

Brand name was even less important here than with mufflers. Nearly two-thirds (65.6%) didn't know the brand name. These consumers bought because of distribution (28.7% told us they bought the only brand their chosen outlet carried), price (18%), or quality (12.3%).

Chances that a do-it-yourselfer would buy the product more than once are exceedingly slim. Our figures show that 95.1% of the purchasers bought once during the 12 months preceding our phone call.

Overall, with these products, retailers would be well advised to pay close attention to the specialist competition in town (perhaps supply them when possible?) and continue to keep close tabs on the profitability of these items. ■

Profile Of An Exhaust System Pipes Purchaser **1984/1987**



CONSUMER AUTOMOTIVE REPAIR STUDY

Paint

Automotive stores lost market share for paint sales since our 1984 *Consumer Automotive Repair Study*, as did discount stores and independent garages. This year's *CARS* data infers that some of those sales went to car dealerships, hardware outlets, and department stores.

And, not as high a percentage of DIYers are buying paint compared with our research three years ago (16.4% now vs. 23% then). Serious DIYers continue to purchase more consistently than the more casual DIYers.

Outlets for paint ranked as follows: automotive stores, "I don't remember where I bought it," car dealerships, hardware stores (tied with independent garages), department stores and discount stores (also tied), specialty installers, gas/service stations, and convenience stores.

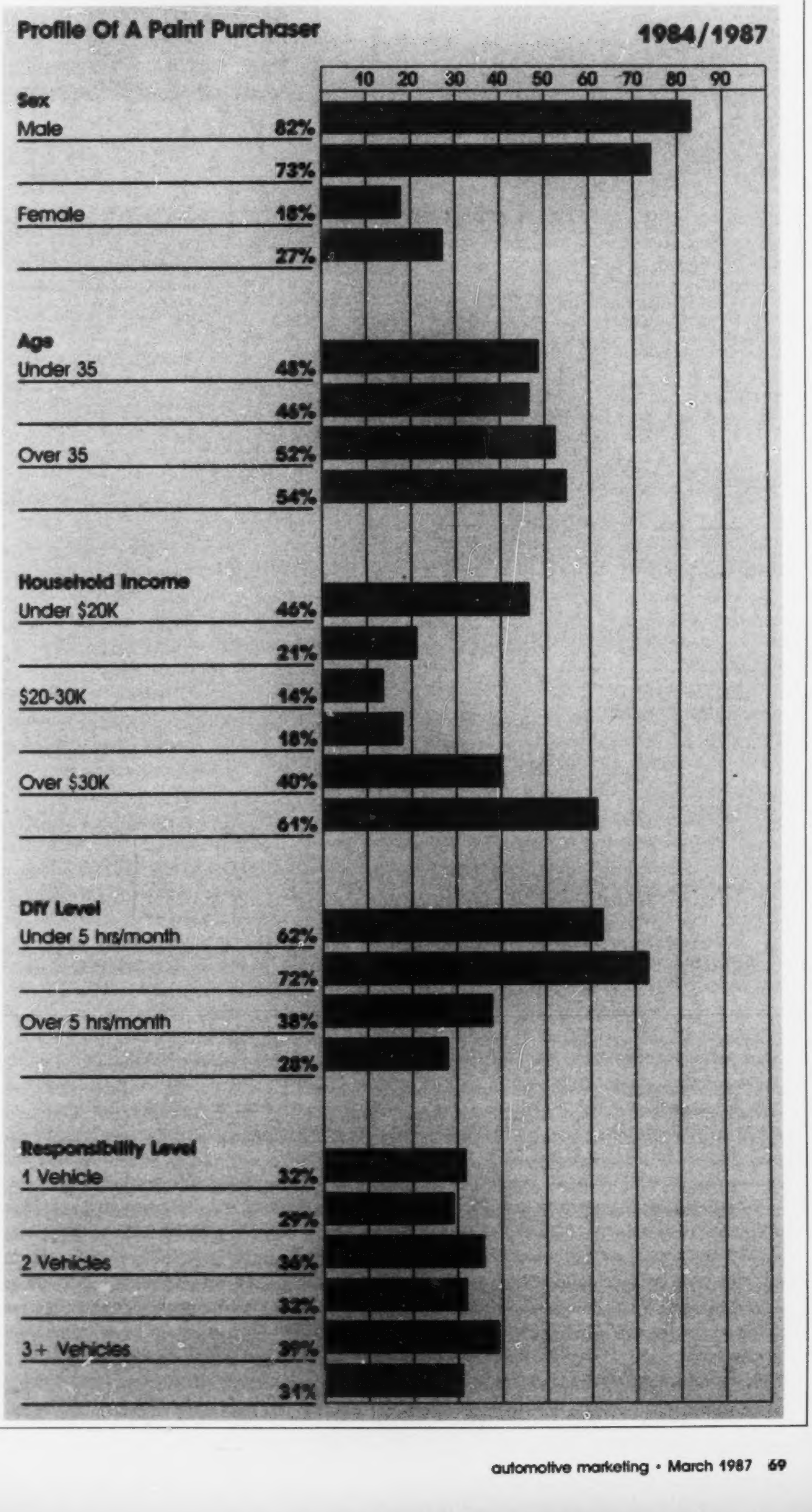
Application of the paint was done in most cases by the purchaser (61.7%). Automotive stores with service facilities, specialty installers, and independent garages all tied for second in this ranking. Other household or family members, or other DIYers, applied 9.9% of the paint.

Saving money on the job was paramount for our *CARS* respondents: 74% painted to save money, while 20% did the job because they liked to. Getting it done correctly mattered most to 14% of our DIYers who cited that as their reason for doing the job themselves.

Color match was the top reason why DIYers purchased one brand over another (37%), which fits in with our other data stating that 69.1% of our respondents didn't know what brand they'd purchased. They'd bought for color. Other brand choice considerations were price, quality, and distribution at the outlet the DIYers were shopping for paint.

Paint was purchased only once within the 12 months prior to our phone calls in most (85.2%) of our responses from paint purchasers.

Our data on body paint fits nicely with our report on body filler in this current *CARS* study. In both cases, we found diminishing percentages of DIYers buying the product. They were predominantly male, in the younger age brackets (although paint purchasers were a little older: more touch up, perhaps?), and the majority of both product users spent between one and five hours working on their cars. ■



CONSUMER AUTOMOTIVE REPAIR STUDY

Seat Covers

As with most categories, the purchase level of seat covers buyers among DIYers fell between 1983 and 1986. Then 13% of all DIYers reported buying seat covers over the past year; in 1986 the number was 8.2%. And, seat cover purchasers have dropped in income level, with 29% in 1983 making less than $20,000, while 33.8% made that in 1986.

Also, DIYers have shifted their shopping patterns for seat covers. In 1986, 45% of them reported buying seat covers in department or discount stores; in 1983, only 26% of them bought the product from these retailers.

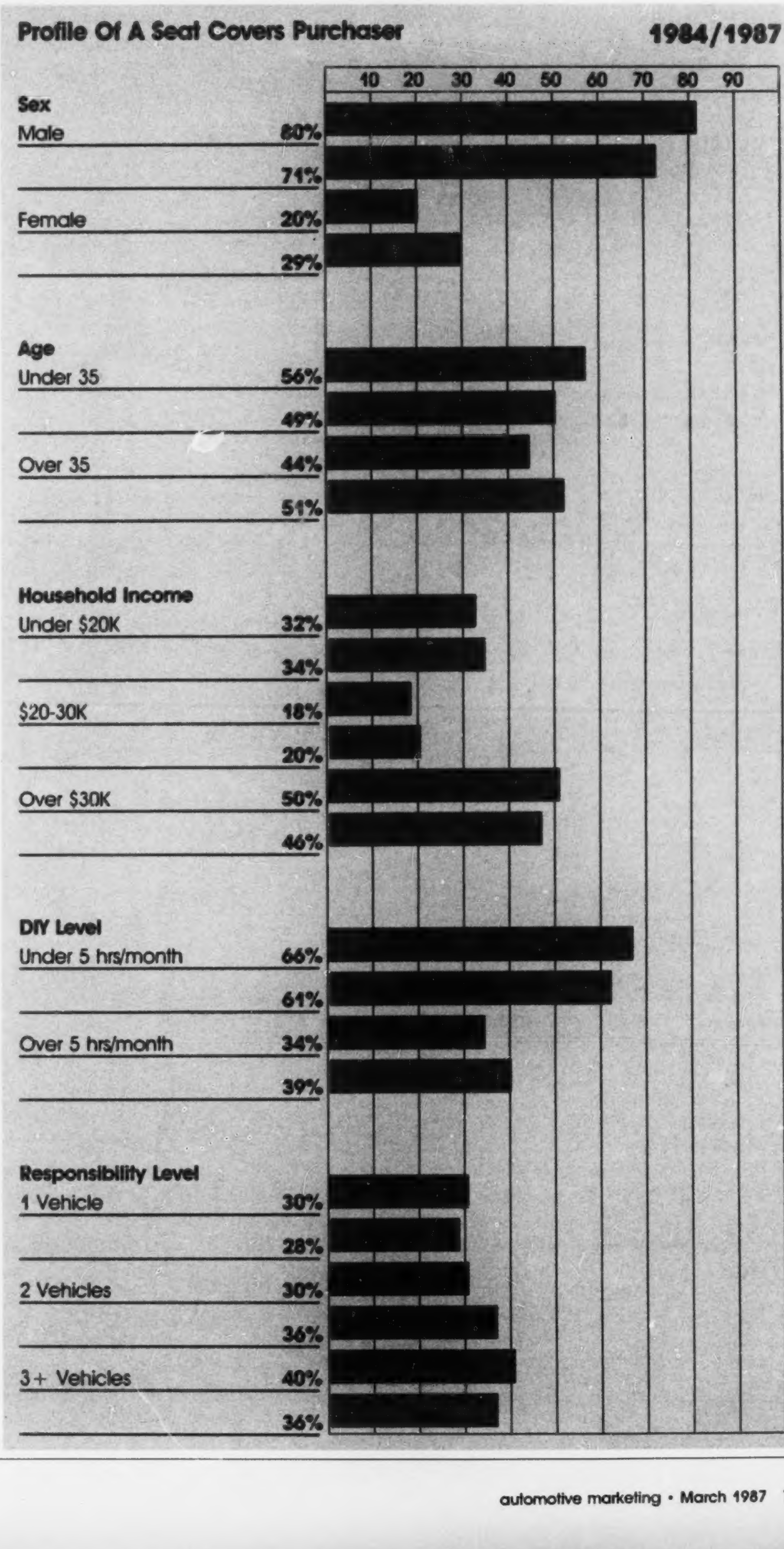
The market share hasn't come from automotive stores, however, since 30% of DIYers bought the product there in 1983 compared to the 32.5% who bought it there in 1986. The share has come from a wide variety of sources we lumped together as "other" in 1983 since no one source had anything like a noticeable market share. The types of "other" sources include things like auctions, car dealers, flea markets, specialty installers, and even swap meets.

Once acquired, a DIYer—the purchaser himself or a friend or relative—put them on himself in 92.5% of the cases. Almost half said they did this to save money, 28.1% of them simply enjoyed doing it, 6.3% said it was easy, 12.5% couldn't find anybody else to do it, and 6.3% wanted to make sure it was done right.

Most (87.5%) of the DIYers who bought seat covers weren't aware of what brand they actually bought. Another 2.5% named the national chain in which they bought the covers as a brand name. Obviously, there's not much brand awareness in this product area.

So, why did they buy what they did? It was the right color, said 15%, while another 17.5% liked the appearance. Ten percent noted that they bought the first one they found that fit their specific car. But only 35% mentioned price and an even lower 12.5% mentioned quality. The implication for retailers is that seat covers have to be seen and there must be a complete coverage offered.

And, retailers get only an occasional chance annually to sell seat covers to individual DIYers: 97.5% bought them only once over the past year. But, since 33.2% of seat cover purchasers are serious DIYers, it's a good product line. ■



CONSUMER AUTOMOTIVE REPAIR STUDY

Floor Mats

Floor mats, as a category, were just about in the middle of our list of products DIYers purchased over the past year. In all, 22.8% of DIYers bought floor mats during that time period.

By sex, 71.0% of DIYer floor mat buyers are male; 57.7% make less than $40,000 annually; 59.8% are average DIYers who do between one and five hours of DIY work monthly; and 72.8% have two or fewer cars to maintain.

Discount stores lead the parade as the most popular places to buy floor mats, with 39.3% of DIYers buying them at one of these outlets. Automotive stores at 26.8%, however, rated higher than department stores, in which 23.2% of DIYers made their floor mat purchases. Only a few bought mats at outlets like supermarkets.

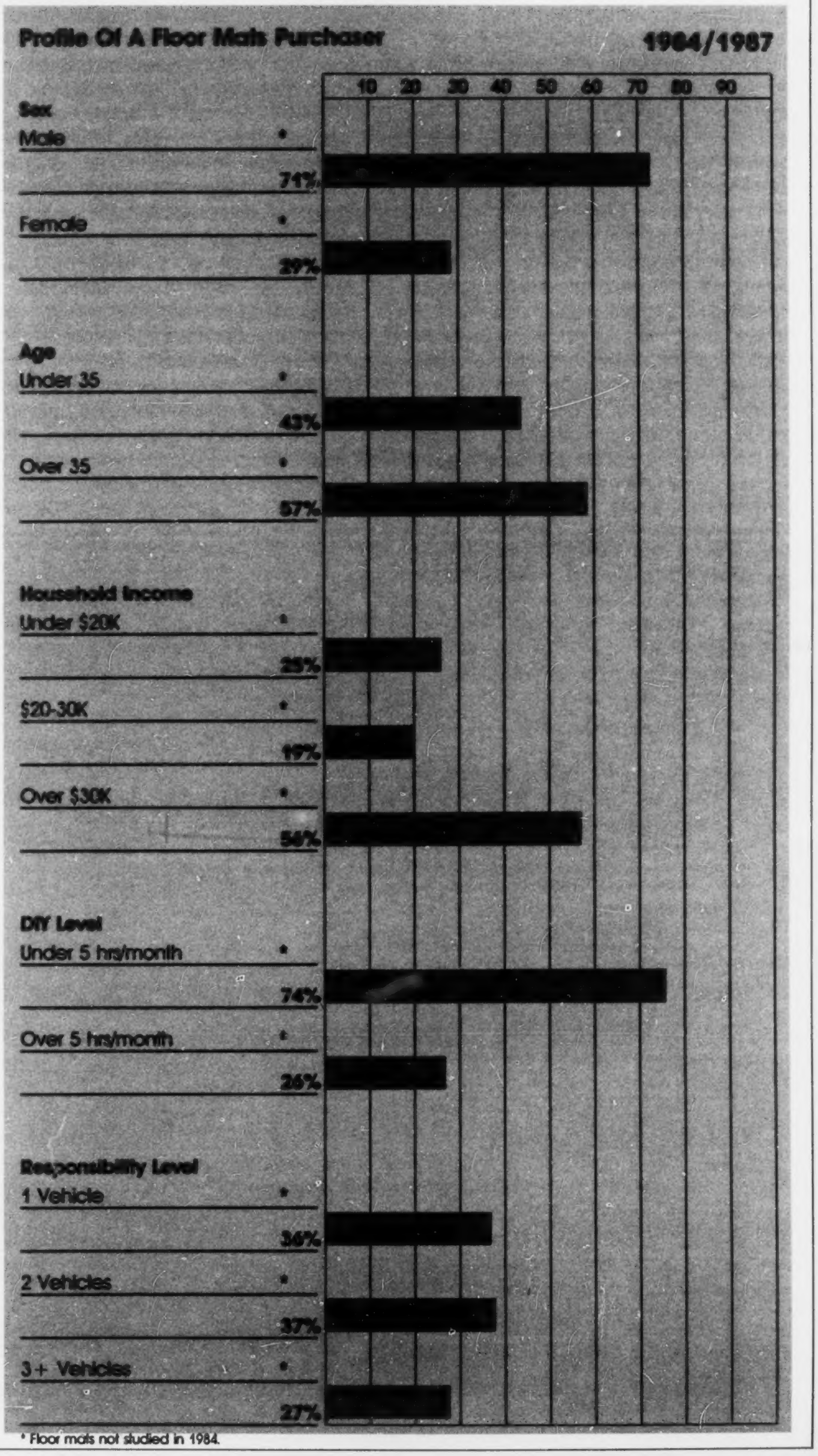
Just about anybody can throw a mat on a car floor, so it's not surprising that 99.2% of DIYers who bought floor mats themselves installed them themselves. In fact, it's worth wondering about that one soul who had an automotive store with service facilities install his floor mats.

Floor mats are a product line without much real brand consciousness. Of all DIYers buying them, 74.1% didn't know what brand they bought. Those who said they did really told us the names of the chains – in each case, a major discounter or department store – in which they were purchased rather than a manufacturer's label.

So displaying them is important. Being able to see that "it was the right color" was the major reason for buying what they did for 21.4% DIYers, while another 6.3% simply "liked the way they looked," and another 8.9% found a set that "was the proper size." All of these requirements are requirements best met by letting the customer actually see the merchandise.

Otherwise, 30.4% mentioned price considerations as their purchase reasons, while only 8.0% noted the quality of the product.

Floor mat purchases tend to be far apart. Only 9.3% of DIYers bought floor mats more than once over the course of the year before questioned. If the retailer doesn't sell it when the buyer is ready to buy, he'll lose the sale. And selling floor mats requires stocking a full coverage and displaying the stock. ■



* Floor mats not studied in 1984.

CONSUMER AUTOMOTIVE REPAIR STUDY

Custom Wheels/Wheel Covers

In 1983 custom wheels and wheel covers were purchased by the smallest group of DIYers in our study; in 1986 three products (electronic control modules, struts, and cruise controls) were purchased by smaller groups. In all 6.2% of DIYers bought these products, and a much larger percentage bought them in an automotive store than did in 1983.

In 1983 only 32% of DIYers bought custom wheels or wheel covers in an automotive store. In 1986 this percentage had jumped to a majority—50.8%. And, while sales of this product in tire stores in 1983 hit 25%, sales through the same channel in 1986 dropped to 8.2%.

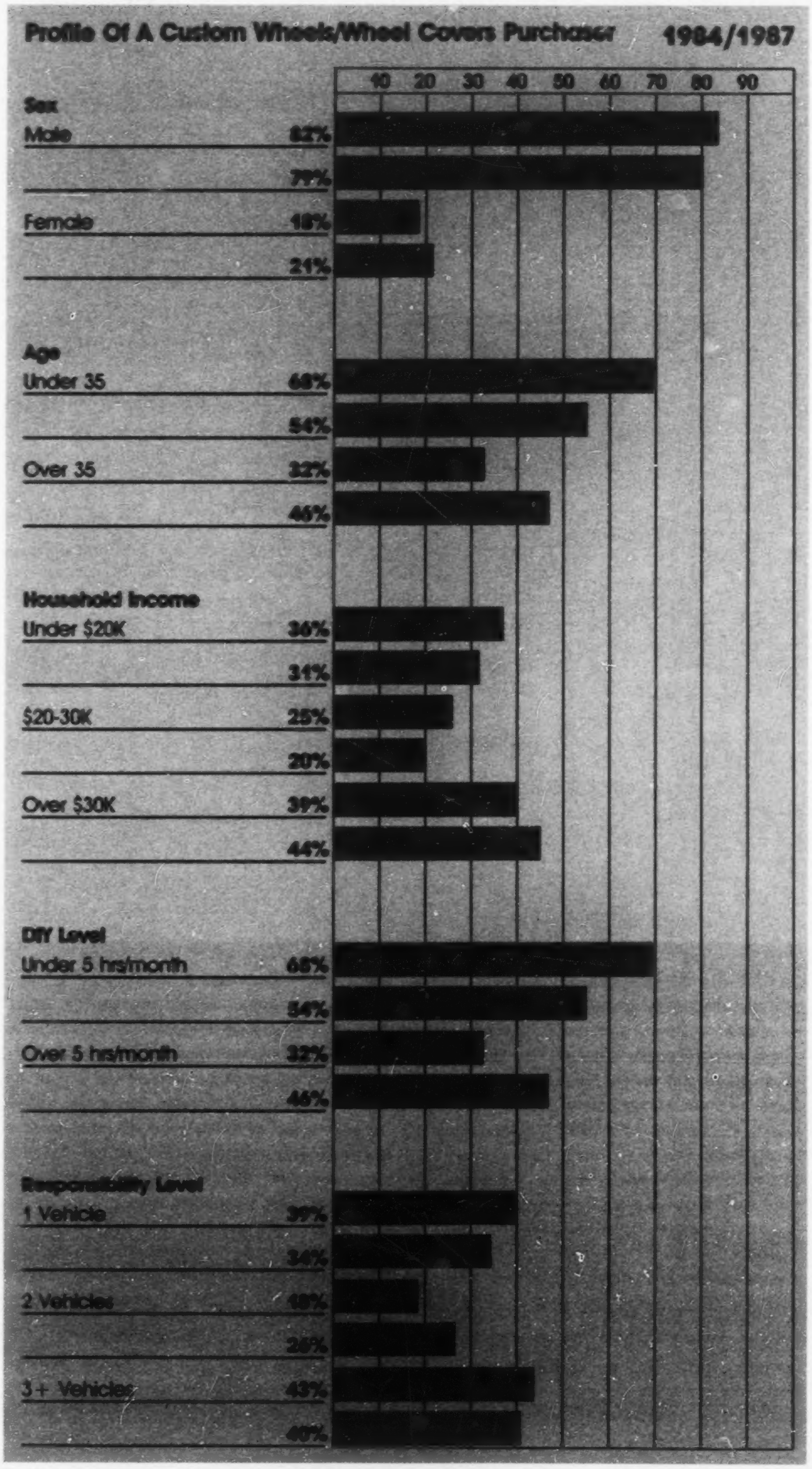
It's no surprise, therefore, that more DIYers installed the product than did in 1983. While 57% installed them themselves in 1983, this year's study shows that 62.3% self-installed them.

This number matches the percentage of those DIYers who installed the product themselves to save money; 62.9% of them gave that as their reason for self-installation. Only 17.1% did it because they enjoyed the work, while 5.7% said it was "easy to do."

Since most DIYers installed the product to save money, the fact that most of them also cited low price for buying what they did is not remarkable. In all, 39.3% gave price reasons for buying the brands they did, while 8.2% gave quality reasons. Low price doesn't necessarily mean "on sale." Only 8.2% bought the products on sale; most simply said they got the wheels or covers they wanted at a low price. But, 26.2% of the purchasers bought because they "liked the way it looked." This clearly indicates the need for displays to move the product.

And, people do not return for custom wheels or covers several times during a year. In all, 95.1% bought custom wheels or covers only once over the 12 months before the study. So, the retailer has only one chance to sell them.

The obvious conclusions are that wheels or wheel covers are sold through displays, with a low price being an important element in making the sale. And, in ever growing numbers, DIYers are taking their custom wheel or cover business to automotive stores, rather than other outlets such as tire stores. So the volume retailer has a better-than-ever chance of getting a piece of this lucrative business.■



Profile Of A Custom Wheels/Wheel Covers Purchaser 1984/1987

SERVICE MARKET REPORT

ALIGNMENT LABOR MAKES YOU MONEY

by **David A. Evans**, Contributing Editor

Easily, the most frequently heard question in the past year has been, "Should I get into four wheel alignment?"

My answer to this question is "Yes, you should – if you do it the right way."

The second most-asked question is "How should I get into it?"

This answer is tougher. There are plenty of ways to get into four wheel alignment, but the question is premature. No one ever seems to ask "Why?"

Let me talk about "why" first. We'll talk about "what" and "how" later.

Think Greed – Don't Think Technical

The main reason for getting into four wheel alignment is financial, not technical. One of the unfortunate by-products of the microchip age is the ability to produce gee-whiz hardware which merits little more than a ho-hum response from a management viewpoint.

Fantastic animated color graphics from the game arcades frequently do very little to enhance productivity or profit when used on automotive diagnostic and repair hardware.

I don't say that color and motion are useless, but they should have a purpose beyond amazing the competent technician or the technically unskilled manager (a broad but fairly accurate buyer profile, I'm afraid).

And until quite recently, much of this show biz has been largely – well – show biz. Not car biz. Developments in the past year have changed this, for the better.

David A. Evans has participated in the aftermarket for over 25 years. He has worked as a line mechanic in a dealership, has owned a chassis shop, and has owned an 18-bay general service facility. His technical, sales, and management training material are in use by a variety of well-known automotive manufacturers. Dave would be happy to take your questions or comments, and can be reached at (312) 394-5349. We would also appreciate your comments.

The Purpose For Alignment?

The purpose of any alignment rack, or hardware, or training – remember – is to generate gross dollar income, maximum profits, and high retained earnings. If the hardware, as such, doesn't provide you with equal or additional gross profit dollars for similar involvements of time and trouble, and removes cash assets from your balance sheet which might otherwise drift to the bottom line, then the hardware must be added to your list of hobbies.

The Truth Revealed!

For almost 30 years now salesmen have told me, and other shop owners, the purpose of a "front end rack" is to sell parts, to identify repair opportunities, and to gain the "added profits" which come from parts sales and whatever labor is charged. I have always been uncomfortable with this idea. And in the past ten years or more, I have continuously written that management had better make money from alignment labor.

Why? Consider...

If I count on parts to show me my gross and profits, I don't need a front end rack to make those bucks. I can identify every conceivable front end or chassis fault – and I emphasize chassis – without spending one dime on front end alignment. And, I can replace those parts with far less capital expenditure than the $15,000 plus I'd have to pay for a rack and alignment hardware. In fact, *thousands* of shops do just this: install parts and farm out the alignment.

My song has also been one which says you cannot be certain of parts income, because simple alignment, without parts replacement, may be needed more frequently than you might wish.

An alternative course, to provide greed-based incentives for technicians who locate parts needing replacement, leads to abuses such as replacement of OK parts. And, if you sell parts which don't need actual replacement, by what name do you think you should be called?

Therefore, my song – even louder than before – is "Make it on your alignment labor."

And the four-wheel alignment machine is the device which has made my point.

The World Of Minimal Parts Demand

Why? Because, compared with the front end of a car, the rear end of the car has almost no parts replacement opportunities. And the ones which do exist as a regular opportunity don't provide much of a gross.

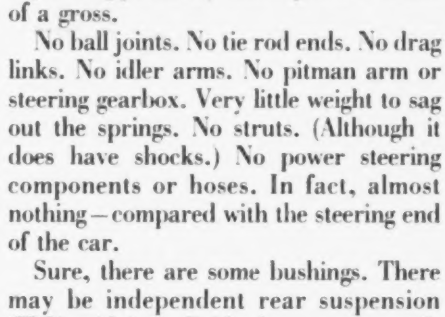
No ball joints. No tie rod ends. No drag links. No idler arms. No pitman arm or steering gearbox. Very little weight to sag out the springs. No struts. (Although it does have shocks.) No power steering components or hoses. In fact, almost nothing – compared with the steering end of the car.

Sure, there are some bushings. There may be independent rear suspension (IRS), with its individual suspension trailing members or other axle devices. There may be a track rod or sway bar. But, very little to wear out. Very little. And as I said, almost nothing compared with the front end.

A front wheel drive (FWD) with a solid rear axle, typified by a Chevy Citation, for instance, demonstrates the ultimate

ALIGNMENT PROFITS

We asked our Retail Panel "Do you find regular alignment work profitable?"



Source: 1987 *Automotive Marketing* Retail Panel

arrogance of anyone telling a parts replacement story about the back end of the car. The only maintenance-type items and/or replacement items in the suspension at the rear are the brakes, wheel bearings, seals, and shocks. Big deal!

Parts at the front of the car: including all of the above mentioned parts, plus the axles and other attendant bric-a-brac of FWD such as CV joints, *are a big deal.* But at the rear? Gimme a break!

No—I take that back. Gimme my *alignment labor.*

Can You Make Money On Labor?

If you are operating at fairly typical and modern ratios offering 70% gross profit, then it would be extremely difficult for you to be doing the business you are doing without having some fairly sophisticated alignment hardware, a rigid inspection system, and continuous training and updating—right now.

In other words, regardless of your operational practices, a simple alignment of the front end—exclusive of parts replacements or add-on labor—should be bringing you 70% gross profit and 30% direct labor without a trace of complaints from your technicians or your accountant.

If you do this now, then aligning the back end will give you the same margins—but with additions to your gross. Right? Right!

Plus, you get a de facto increase in productivity because you only have to run the car into and out of the bays, and set up the alignment equipment once to get two bites of income.

Interestingly enough, although the above arguments are logical and hard to refute, this stance has repeatedly earned me some of the nastiest mail I have ever gotten. Apparently the salesmen who have been successful in selling on this front-end-rack-for-parts-sales-profit tack for so long don't like to have one of their favorite sales stories denied.

Now that there is a large installed base for four wheel alignment machines in the trade, however, the truth is coming out.

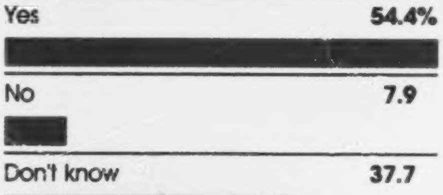
Now, Put On Your Technical Hat

Why bother? Why say that four wheel alignment is a good deal for the parts store? Because it *is* a good deal. In fact, a great deal.

Adjustable rear suspensions can be adjusted. And they should be adjusted when out of specification. This means you need a good, quick, efficient, and positive way to provide the adjustment. Clearly, this means hardware which can be plugged in quickly, and used with dispatch.

FOUR-WHEEL DRIVE ALIGNMENT PROFITS

We asked our Retail Panel "Do you find four-wheel drive alignment work profitable?"



Source: 1987 *Automotive Marketing* Retail Panel

Can you use the older styles of hardware and back the car on the rack for rear wheel alignment? Sure you can. Do you want to? I hope not. It is a bottleneck way of turning out the job.

Another reason for owning sophisticated four-wheel alignment equipment—particularly the ultra-sophisticated computerized gadgetry—is so-called "thrust line" alignment.

I say "so-called" because there are a lot of times when having the thrust line printed out on the ticket is simply an annoyance. Why show an angle which you can not correct? Why promise something as nebulous as "centerline" measurement when you can't adjust for the vehicle's centerline? And who is going to show me any sort of "thrust line" for a FWD car?

What the hardware *really* allows you to do is set the steering wheel levelness (or straightness) more quickly, more accurately, and more often. This has less to do with technical necessity than it does customer satisfaction. When the added increment of customer satisfaction and/or shop speed is balanced against the added cost of the computerized four-wheel equipment, as opposed to the sophisticated two wheel equipment, I don't see much sense in opting for the less capable hardware.

Another *big plus* for the computerized and four-wheel equipment is the management job the hardware does for the shop.

Computers Welcome Here

Here is where the computer graphics programs earn their keep. If you haven't seen the latest on-screen offerings of the alignment manufacturers, you are in for a surprise and a treat. The pictures are nothing short of phenomenal! If your technicians, service writers, and customers can't visualize the components on the car and what is right/wrong with them from the screens now produced, I can't imagine what would work.

Some of these computer wonders do almost everything but reach out and turn the wrenches. One of them displays a detailed picture appropriate to any car dialed up from its memory. It's detailed to the point where little arrows show what to adjust and where.

Another computer program re-calculates caster, based upon the changing relationship between camber and toe. Fantastic? As only massive memory capacity and capable programmers can make it!

These devices also make it easier for shop management to ensure that one vital job, frequently overlooked or avoided, is done: *inspection.* Detailed inspection systems are programmed into these devices so it is less difficult, and even attractive, as a proposition to the technician.

It removes another pad of inspection forms from the service manager's desk (the pad is mislaid anyway.) And it provides excellent demonstration of shop professionalism.

The Parts Equation

I said labor was the big deal. I stand by that. And a continuing chorus of intelligent and highly successful shop management can be heard echoing this concept. I'm not the lone voice in the wilderness any longer.

Recently, one manager told me he had *more than doubled* his labor income per ticket, and maintained over 70% gross profit levels, since purchasing his justifiably expensive four-wheel alignment setup. He boasted of an $80 average labor ticket for alignment, alone—and I think that is both good, and *right.*

Does he get parts sales? Of course he does! Much more than the typical share, too, because of the rigid inspection system his hardware gives him.

More labor. More parts.

Do I think you should get into four-wheel drive? You bet I do. But do it for all the right reasons, and the results will be beyond your expectations. ■

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Chilton's

AUTOMOTIVE MARKETING

The Marketing/Business Magazine For The Retail Aftermarket

APRIL 1987

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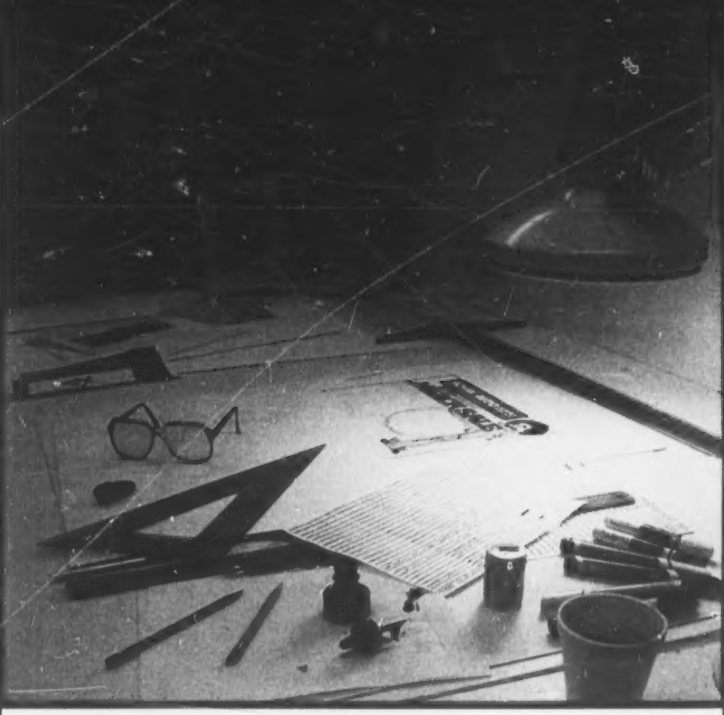

FEATURES

Advertising: Techniques And Tactics 34
No retailer really wants to advertise. But since you have to in order to survive in the market today, you may as well do it right. Here is an advertising primer.

A Hard Look At Hard Parts 46
You'll have to work harder this year to make those hard parts sales. But there is plenty of profit to be made selling these aftermarket basics.

Service Report: For Love And Money 54
Servicing cooling/heating systems is an easy way to make money in your service bays. All you have to do is do the job right.

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PUBLISHER'S NOTES

WINNING AT ADVERTISING

Advertising is basic to the retail business. No matter which kind of retail business it is, advertising is a given.

This month our senior news and features editor John Wirebach looks at advertising, illustrating the challenges with a case study of a small retailer whose market area takes it up against some very sophisticated, very large retail operations.

There's more to come in May and June when we look at co-op advertising from the suppliers' and retailers' points of view. Be sure to read this exciting series.

The hard parts business is another aftermarket basic, and contributing editor Edward L. Kaufman looks at that market. We've added specifics in terms of product categories to his analysis.

Then there's merchandising, our *AM* Index, products, and Market Line, all put together in this issue by our Association of Business Publishers award-winning editorial staff. My personal congratulations, and appreciation, to them on earning their fourth "Pulitzer Prize of the business press" in five years!

It's great to have your work recognized by your peers! And we like hearing from you about the kind of job we're doing, too. Let us know. ■

Sarah Frankson
Publisher

THE AUTOMOTIVE MARKETING INDEX

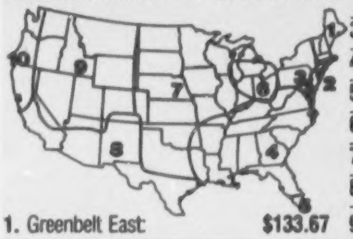
THE 1986-87 *AUTOMOTIVE MARKETING* MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index. The products include a non-resistor spark plug; an oil filter; a can of 10W30 motur oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

JANUARY 1987 NATIONAL AVERAGE MARKETBASKET PRICES

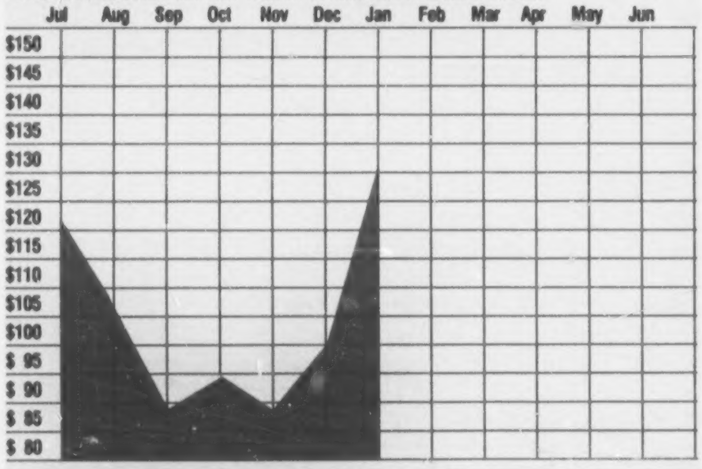
A non-resistor spark plug:	$ .74	A gas-charged shock:	$ 11.98
An oil filter:	2.14	One gallon of antifreeze:	3.30
A can of 10W30 oil:	.75	One pair of wiper refills:	1.88
A can of paste wax:	2.69	A 40-month battery:	32.73
An AM/FM/Cassette:	75.94	**Total:**	**$132.15**

DECEMBER AM MARKETBASKET PRICES BY MARKETING AREA



1. Greenbelt East:	$133.67
2. Megapolis East:	153.21
3. Smokestack East:	$140.73
4. Old South:	128.85
5. Caribbean South:	118.51
6. Smokestack Central:	92.57
7. Grainbelt Central:	98.34
8. Spanish West:	199.61
9. Desert West:	132.15
10. Greenbelt West:	123.53

NATIONAL AVERAGE MONTHLY 1986-87 AFTERMARKET BASKET PRICES



AFTERMARKET BUSINESS INDICATORS

	Unit/Base	Mo/Qr	Current Period	Prior Period	Year Ago, Same Period	Low (61-87)	High (61-87)
Personal Income	billion	Dec 86	$3,554.8	$3,526.6	$3,418.0	Jan 61	Dec 86
Personal Consumption Expenditures	billion	3Q	$2799.3	$2,732.0	$2,67.1	1Q 61	3Q 86
Consumer Price Index	67 = 100	Dec	331.1	330.8	327.4	May 61	Dec 86

AMERICAN-BUILT CARS SOLD IN FEBRUARY 1987

New car sales were slow the first two months of 1987, as the new tax law took away incentives for new car purchases. Still, sales were better than many expected.

Maker	1987	1986	% Change
American Honda	27,851	14,637	90.3%
American Motors	2,501	6,472	-61.4
Chrysler	78,508	80,322	-2.3
Ford	157,031	146,898	6.9
General Motors	277,956	351,587	-20.9
Nissan	7,200	6,843	5.2
Volkswagen of America	3,808	5,873	-35.2
Total U.S. Industry	556,953	612,632	-9.1

Sources: E.F. Hutton & Co., Motor Vehicle Manufacturers Association

1987 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various retail chain, manufacturer, and distributor common stocks in different stock exchanges for the 52 week period prior to March 18.

	Exchange	52-week High	52-week Low	3/18 Quote	P-E Ratio
Armor All	OTC	19	$10\frac{1}{4}$	$17\frac{7}{8}$	–
Arrow Auto	AMEX	$13\frac{3}{4}$	9	$12\frac{1}{4}$	–
Cardis Corp.	AMEX	10	$5\frac{5}{8}$	$6\frac{1}{8}$	6
Champ Parts	OTC	12	$3\frac{1}{2}$	$11\frac{3}{4}$	47
Champ Spk Plg	NYSE	$13\frac{3}{4}$	$8\frac{3}{4}$	13	–
Crown Auto	OTC	$4\frac{1}{4}$	3	$3\frac{5}{8}$	17
Dana Corp.	NYSE	42	$25\frac{1}{2}$	$40\frac{1}{4}$	24
Durakon	OTC	18	$9\frac{7}{8}$	$13\frac{1}{2}$	18
Echlin	NYSE	$24\frac{3}{8}$	$15\frac{1}{4}$	23	20
Facet	NYSE	$19\frac{7}{8}$	$8\frac{3}{4}$	$18\frac{1}{2}$	33
Genuine Parts	NYSE	$53\frac{3}{8}$	40	$52\frac{1}{4}$	23
Mr. Gasket	OTC	15	$4\frac{3}{4}$	$6\frac{3}{8}$	13
Prkr Hannfin	NYSE	$37\frac{5}{8}$	$20\frac{1}{4}$	$33\frac{3}{4}$	17
Pennzoil	NYSE	$84\frac{1}{2}$	$48\frac{1}{8}$	$81\frac{3}{4}$	64
Pep Boys	NYSE	53	$26\frac{3}{4}$	48	32
Perry Drugs	NYSE	$20\frac{7}{8}$	12	$14\frac{3}{4}$	42
Purolator	NYSE	$36\frac{3}{4}$	15	$36\frac{1}{8}$	–
Quaker State	NYSE	30	$23\frac{1}{2}$	$29\frac{1}{2}$	15
Republic Auto	OTC	10	$6\frac{5}{8}$	$8\frac{1}{8}$	–
Rite Aid	NYSE	$39\frac{1}{2}$	$26\frac{3}{4}$	$37\frac{1}{2}$	21
Sealed Power	NYSE	$34\frac{7}{8}$	$23\frac{1}{8}$	$34\frac{1}{2}$	15
Southland	NYSE	$60\frac{1}{2}$	44	54	14
Stan Mtr Prod	NYSE	$25\frac{3}{8}$	$14\frac{5}{8}$	$22\frac{3}{8}$	16
Supr Ind	AMEX	$16\frac{3}{8}$	$11\frac{1}{8}$	16	11
TBC Corp.	OTC	$12\frac{1}{2}$	$5\frac{3}{4}$	$12\frac{1}{2}$	–
Tenneco	NYSE	$50\frac{1}{2}$	$35\frac{3}{8}$	$48\frac{3}{8}$	–
Trak Auto	OTC	$18\frac{3}{4}$	11	$14\frac{1}{4}$	356
Triad Systems	OTC	$15\frac{1}{8}$	$8\frac{1}{2}$	$13\frac{5}{8}$	29

PRODUCT OF THE MONTH: WAX & POLISH

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study*, we look at the individuals who purchased and installed wax and polish products during a 12-month period.

			Age					Income				Hours Per Month Spent On DIY				Number Of Cars Responsible For		
Total	Male	Female	-25	25-34	35-44	45-54	55 +	-$20K	$20-30K	$30-40K	40K	-1 hr	1-5 Hrs	6-10 Hrs	11 + Hrs	1	2	3 or More
100.0%	67.3%	32.7%	13.5%	30.8%	27.5%	12.7%	15.4%	28.4%	28.3%	12.4%	21.0%	16.5%	52.7%	18.7%	11.0%	37.1%	40.3%	22.7%

MARKET LINE

Do ESAs Affect Aftermarket Sales? The Jury's Still Out

Recently some aftermarketers have worried that the growing sales of extended service agreements (ESAs) will hurt their business since car owners will buy aftermarket products and service where they get ESA work done, at their dealerships.

For example, Dan McNamara, vice president of Mitsubishi Motor Sales of America, says, "Dealers and factories are also aggressively pursuing extended service contracts and protection chemical warranties as other ways of lengthening the ties between vehicle buyer and service dealer." The result: car owners get used to going to their dealers for car products and services.

This is indeed what new car makers hope will happen. Attempts to keep dealers as the primary source of OE parts are one way of making this happen. In 1982, General Motors won litigation keeping its franchised dealers in control of crash-parts distribution. More recently, however, an independent warehouse forced Mercedes Benz to stop requiring its dealers to buy parts only from Mercedes.

Therefore, dealer-sold ESAs (also sometimes called extended service contracts, or ESCs) have become one of the most important ways for dealers to keep aftermarket business as well as to increase revenue and profits as new car sale profits are being squeezed.

ESAs were first sold in 1970. Ford Motor Co. first offered its ESAs through its dealers in 1976. General Motors joined the bandwagon in 1979, rapidly followed by Chrysler. Now, more than 100 independent companies such as General Warranty, Harbor City, CA, also offer ESAs through new car dealers.

In 1974, only around 300,000 ESAs were sold, while more than ten million cars were sold. By 1982, this number had jumped to around two million ESAs, although the number of vehicles sold that year dropped to some seven million.

According to Julie Hegley of General Warranty, it is difficult to say how many ESAs are sold today, since the companies selling them do not release actual figures. However, she believes about 40% of new car buyers today buy some kind of ESA.

An ESA is not a warranty, which comes free-of-charge with a product purchase. It is, instead, a form of insurance, sold separately from the car, that generally covers specific parts and labor for up to five years or for up to 50,000 miles. The cost of an ESA ranges from about $200 to $1,000, depending on the company and the coverage.

It is sold through new car dealers, but by law, the car owner is not required to return to the dealer for service under the ESA – although most brochures explaining ESAs say that the car owner should return to the dealer for service.

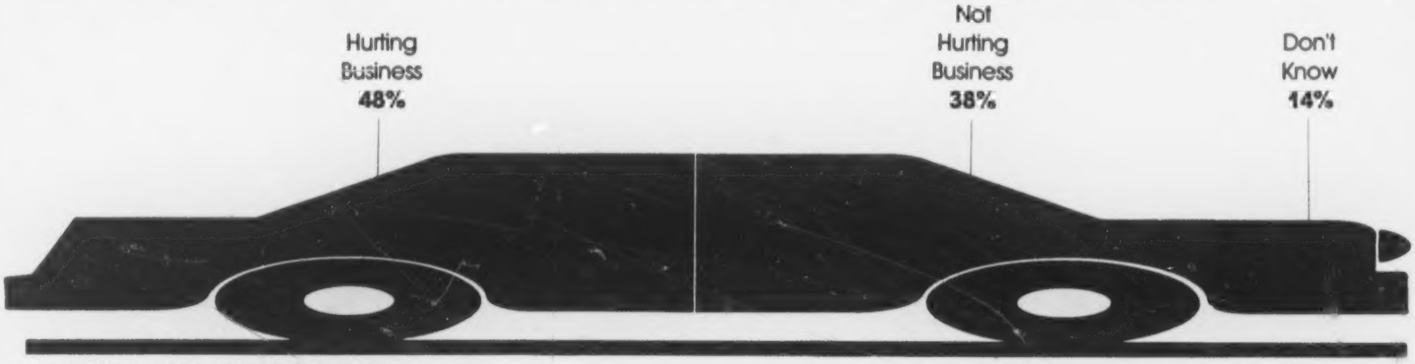
However, most ESAs include a toll-free number that the car owner can call to find any other service outlet – including aftermarket volume retailer service bays – approved for ESA work (AMC and Ford do not require phone calls; AMC pays for jobs done by independent shops only if there is no nearby AMC or Jeep dealer).

The fact that any service bay may do ESA-covered work is something that can be stressed by other types of service outlets in their promotions. Some successful service outlets even offer to make any required ESA calls for their customers.

Many independent service outlets, however, find the paperwork and the spotty coverage which pays for some types of parts and work but not others, makes it not worthwhile to do ESA work. As David

THE AFFECT OF ESAs ON NON-DEALER SERVICE OPERATIONS

We asked the managers of service operations, both in large chains like Sears and in independent garages, if they did Extended Service Agreement work, and if they found these agreements hurting their businesses by keeping customers at new car dealers for service. Half did ESA work, while half did not. And, the majority didn't see ESAs negatively affecting their businesses.



Source: 1987 *Automotive Marketing Service Panel*

McKouen, Metric Motion, Flagstaff, AZ, says, "I've found with extended service contracts, it's hard to get paid on them. In many cases we've refused to do it."

Although, as our chart shows, many service managers fear ESAs will hurt independent service businesses, there is little hard evidence that so far ESAs have helped new car dealers gain—or even hold onto—a share of the service market—repair and maintenance car work. New car dealers had a 32% share of the total service job market in 1972, according to industry research. Despite the appearance of ESAs, this share has steadily declined ever since. In 1985, two years after most of the original warranties on the two million 1982 cars covered by ESAs had expired and their ESA coverages started, dealership share had actually *dropped* to 19%, MEMA reports. On top of that, according to MEMA, in 1985 new car dealers had only a 2% share of the DIY market—about on a par with drugstores and supermarkets.

WHEN PROTECTION EXPIRES

Even with extended service contracts added to original warranties, aftermarket business should not be greatly affected since generally after six years (the five-year-plan is the most popular sold) the car is no longer protected by any plan. And, MEMA studies show that the average car a DIYer works on is seven years old.

Company	Warranty (years)	ESA (years)
Chrysler	1	7
Ford	1	6
General Motors	1	6

At the same time, the number of car dealers that even offer service has fallen over recent years. Where there were 27,120 such dealers in 1980, by 1983 this number had fallen almost 5% to 24,300 (as of 1985 there were some 25,800 new car dealers, down from a total of 29,800 in 1980, but not all offered service).

So, to date ESAs apparently haven't had a significant, positive effect on dealer service business—or a negative one on the aftermarket. Most aftermarket industry experts downplay the future effect of the ESA. They point out that there is often a considerable difference between how far a customer will drive to buy a new car and how far he will drive for service. In the first case, he or she is often willing to drive a good many miles to buy the desired car at the desired price. In the latter case, he or she generally is not willing to put up with the inconvenience of out-of-the-way service departments, especially for minor repairs and adjustments.

Moreover, ESAs don't cover all repair jobs so the car owner will return to a local service dealer for quite a number of service jobs. There is, as well, a great deal of negative feelings about the quality, length of time, and price (for items not covered by the ESAs) of dealer service work. All of this encourages many car owners to patronize independent service bays.

But what about product sales to the aftermarket's biggest customer, the DIYer? Here again, little impact is seen. To begin with, DIYers just aren't buying ESAs in large numbers. According to General Warranty's Hegley, the sales of ESAs is directly impacted by the new car buyer's DIY ability. The 19.8% of all DIYers who put in over six hours monthly working on their own cars (according to the 1987 *AM Consumer Automotive Repair Study)* aren't apt to buy ESAs.

"If he's used to doing his own car maintenance work, he'll be less likely to buy an agreement," Hegley says. "But, this will have less impact in the future as cars get more complicated and more electronics are put on board. General Motors will have some $2,000 worth of electronics in

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MARKET LINE

each car in the near future. People will be afraid to work on this sort of item, and extended service agreement market penetration will increase." However, she goes on to admit, "I don't think this market will ever see 100% market penetration—and I don't think it ever should."

It is interesting to note that, in line with this, data from the *Automotive Marketing Consumer Automotive Repair Studies* indicates that some 60% of car owners are also serious DIYers—which fits with 40% of new car buyers buying ESAs.

TOP SELLING NEW CARS

Domestic producers sold 8.2 million cars in 1986, with Chevrolet (1.7 million), Ford (1.4 million), and Oldsmobile (1.06 million) the leading makes. The imports together sold 3.2 million new cars for an import percentage of 28.3%. The leading models in sales:

Source: Automotive News

Aftermarket experts also point to the 1986 MEMA study, *Car Maintenance In The USA*, that reveals that, "The average age of vehicles on which DIYers work is 7.0 years versus only 5.9 for vehicles serviced by mechanics." Since most *extensive* U.S. new car warranties are for 12 months or 12,000 miles and the most popular ESAs run for six years, generally by the time seven years are up the car is no longer covered by any type of protection plan. Of course, most luxury cars offer longer protection plans, but these cars are little worked on by DIYers, anyway.

Chrysler recently adopted a seven-year ESA, but since only 13.5% of DIYers, according to the 1987 *Consumer Automotive Repair Study*, who own one car own a Chrysler product, this move should not affect the aftermarket to any great degree in the immediate future.

Therefore, the feeling is, on the whole, that right now the ESA is simply another tool used to sell new cars and doesn't seriously affect serious aftermarket business to its most important customers, the DIYers. However, the jury may still be out on the long-range impact of the ESA on the aftermarket. ■

MARKET LINE

INDUSTRY COMMENT

Consumer Statement

In our March issue, we reported on the Consumer Reports *magazine tests of several aftermarket products. One product manufacturer, Kendall Refinery Co., Division of Witco Corp., disputed the results of the* Consumer Reports' *test and said it would prepare a reply. Here is Kendall's reply.*

First of all, let us say that the Kendall Motor Oils studied by *Consumer Reports* ARE recommended for extremely cold weather, and that we GUARANTEE their performance.

We have not received any field complaints from consumer or professional mechanics about cold weather starting problems with our products.

What we're talking about as far as the magazine article is concerned are the invalid conclusions they drew from their limited test results.

If you read the article carefully, you'll notice that *Consumer Reports* admits to many testing inconsistencies because their budget did not permit the kind of expensive, exhaustive testing procedures used by experienced engineers in the automotive industry.

Our own low-temperature performance ratings are based on recognized industry testing procedures used by all motor oil companies to comply with SAE requirements and API service designations.

The ultimate low temperature performance of a particular engine oil formulation is only proven through actual field performance.

Production of Kendall Motor Oil is carefully monitored to assure that every product meets these specifications.

We feel that the *Consumer Reports* article was misleading to consumers, and was a disservice to all motor oil companies who spend a significant amount of time and money in research and testing to make sure their products meet the highest standards.

We assure you—with no reservations whatsoever—that the *Consumer Reports* ratings are not correct, and that all Kendall Motor Oils meet all cold weather recommendations and standards. ■

Trading With Japan

By Linda J. Hoffman, Vice President Government Affairs & International Trade, Automotive Parts & Accessories Association

It seems almost everyone wants more foreign investment. We need it to finance our unsavory budget deficit and keep the ravages of high interest rates, inflation, and recession at bay.

But are we again preoccupied with only the short term? What are the long term consequences and what do we do about it?

When the transplanted Japanese assembly operations here reach full capacity, about 1.5 million vehicles around 1990, they will do so in a flat growth market. With Japanese imports continuing to flow here unchecked, the U.S. car market is soon to be in the throes of rampant excess capacity. Even with America's Big Three contracting more than ever with outside sources, excess capacity is going to push a lot of parts and accessories companies to the wall. Some of those parts companies probably will be pushed through the wall. And with them will go jobs, lots of jobs.

Because employment in the new foreign owned transplant is only about 25% of the traditional producer, for every one job created, three are lost in American owned plants.

Greater productivity? No. The Japanese are not manufacturing cars, they are

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assembling them, primarily from components imported from their family suppliers still in Japan. That's where their workers are, and that's where their profits go. The Japanese car assembly plant in the U.S. adds only about 20% of American owned and made content.

Japanese investment in our industry does not begin and end at the car assembly line either. A study produced for our government predicts that in two years, 300 Japanese parts and accessories companies will have set up shop here, not just to supply the Japanese car companies, but the domestic OE and aftermarket too. It is likely that these companies, too, will be importing sub-components and leaving their better jobs and profits at home.

Some in the business community, the administration, and Congress are beginning to reassess the impact of foreign investment in this country. They are beginning to realize that jobs and corporate profits once garnered by American companies and subject to our tax laws, are now going abroad in a big way.

They are beginning to recognize that the Japanese car companies are using precious few American made components, that the once dominant U.S. auto parts and accessories industry is now in danger of going the way of our once strong electronics, textile, steel, and agriculture industries.

They are beginning to look at the threats to national security, wondering whether a weakened U.S. controlled supplier base will compromise the nation's military strength. They are beginning to scrutinize the specter of massive foreign ownership of U.S. real estate, banks, and corporations. They are beginning to pay sharp attention to the $60 billion deficit with Japan, nearly half of which comes from lopsided motor vehicles and parts trade.

THE NEXT IMPORT WAVE

For all of you who are concerned with parts proliferation, the imports are still coming. Three new imports debuted in 1986. Five more are planned in the next three years, and five more companies have made deals to make cars for sale in the U.S.

Imports already here: (1986 sales through November)	
Hyundai (Korea)	140,000
Acura (Japan)	44,000
Yugo (Yugoslavia)	32,000

Imports planning U.S. sales: (estimated initial shipments)	
AIM (Greece)	20,000
Austin Rover (England)	20,000
Daihatsu (Japan)	50,000
SEAT (Spain)	50,000
Skoda (Czechoslovakia)	40,000

Foreign companies working deals:	
Daewoo (Korea):	80,000 Opel Kadetts for Pontiac
KIA (Korea):	70,000 small cars for Ford 40,000 small cars for Mazda
Lio Ho (Taiwan):	40,000 small cars for Ford
Usines Chausson (France):	5,000 sports cars for Ford
Yue Loong (Taiwan):	50,000 small cars for Nissan

The open door policy employed by the U.S. permits the Japanese unbridled access to our markets and unlimited investment opportunities here. Yet we find ourselves virtually locked out of their market in Japan and the markets they have created in the U.S. and abroad.

Clearly, something must be done.

There is a big difference between closing markets permanently in order to avoid foreign competition, and carefully managing foreign market share, whether acquired through imports or through foreign investment, in order to have leverage in a committed move towards opening foreign markets. Both are sometimes labeled protectionist. But only one is. It is time our policy makers and our trading partners understood this. ■

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A HARD LOOK AT HARD PARTS

No matter who you are, you'll have to work harder than ever to get your share of hard parts sales.

By **Edward L. Kaufman**,
Contributing Editor, and **Gail Krueger-Nicholson**, Senior Editor

The retail sales of replacement or hard parts is a complex business. Today, it seems like there are almost as many types of outlets selling hard parts as there are hard parts to sell. One generalization that can be made, however, about this complex business is that all participants will have to work harder and smarter to find growth in hard part sales today than they did in the past.

The retail sales of hard parts amounted to $29.6 billion in 1984, according to a 1985 Frost & Sullivan study on the automotive aftermarket. The study identified and discussed 24 specific categories of hard parts ranging from brake system parts to thermostats. Examples of hard parts include:

- **Fast-turn parts:** filters, spark plugs, ignition parts, wire and cable
- **Under-car parts:** brakes, exhaust, suspension including shocks/struts, high performance shocks for light trucks and 4WD, and steering
- **Cooling system parts:** belts and hoses, thermostats, caps, radiators, and add-ons like transmission coolers, engine oil coolers, electric fans and fan clutches
- **Bolt-on parts:** carburetors, water

Edward L. Kaufman is president of Lindsey-Kaufman Co., a marketing consulting firm specializing in the automotive and truck aftermarkets. Inquiries for additional information should be sent to him at: Lindsey-Kaufman Co., 53 Hamilton Place, Tenafly, NJ 07670, (201) 567-6158. We would also be happy to hear from you.

FAST-TURN PARTS

Fast-turn parts are the softest of the hard parts. These parts; filters, spark plugs, ignition parts, wire, cable, and the like, are the fast-turn parts which are important to chain stores because they are—or have been—readily installed by DIYers.

According to Andy Micklos, vice president sales of Wells Mfg. Co., chain stores achieved gains in ignition parts sales because of competitive prices and *visibility*. That is, these stores moved ignition parts from behind the counter to the aisles and utilized attractive hang-up packages and bubble packs.

The chain stores' share of the ignition parts market has grown because of *commitment*—the willingness of progressive chains to stock fuller lines. Micklos says, "In the past, stores could get by with 80-100 part numbers. That changed because of parts proliferation. For instance, on the 1957-74 GM cars one distributor cap covered all 17 years! On the newer models, separate SKUs are needed to cover four, six, and eight cylinder cars, electronic, non-electronic and so on. As a result, stores need to carry 200-250 part numbers at a *minimum*. The most successful chains carry up to 1,700 numbers in ignition parts."

Micklos notes that, "Another thing which characterizes progressive chains is that they want to stay current. These chains are not content to offer parts for cars in the five-to-13 year-old category; they want parts for *newer* cars as well. We've had to respond to chain store demand for parts for 1986 and 1987 models. Theoretically, these parts are the kind which ought to be replaced by car dealers under 5/50 warranties. Nevertheless, they are being bought *now* in chain stores. We don't know whether they are being installed by DIYers or the professionals."

Progressive chain stores, like progressive manufacturers, are also looking to "globalize" their aftermarket stock. "Globalization" is one of the buzz words of the automotive industry these days. It means, for one thing, a demand for foreign-make replacement parts for domestic vehicles. For example, since about 1981, Chrysler has become a big user of Hitachi ignition parts. These are made in Japan for domestic models of Chrysler products. Many of these vehicles are now in the parts replacement cycle.

One company helping retailers "globalize" their stock is Lucas Industries, a manufacturer and marketer of automotive parts. Lucas operates world-wide and sells alternators, starters, ignition parts and wire for both domestic and foreign-make vehicles. The Lucas line includes electrical items for Chrysler cars which are made by the OEM supplier. The line also includes imported OEM components for GM, Ford and AMC models.

Of course, in this country Lucas is well known for the electrical system parts used on *foreign*-make vehicles—everything from Honda Accord to Volvo. Lucas is also known for its Lucas Girling hydraulic and friction products which are OE on a large variety of domestically assembled vehicles.

Worthy of note is Speed Leads, Lucas' concept of selling ignition wire on an individual basis. The usual approach, boxed sets of six or seven wires for each model, leads to a lot of duplication in wire. The Lucas idea is to sell each wire separately. They are tagged for ready identification; customers can buy what they need—and no more than they want. The advantages to the retailer are less space, more turnover—and a ready answer to customers who squawk about having to buy more wire than they need to complete a job.

The big question mark in the fast-turn parts category is the fate of ignition parts. Many DIYers continue to install *conventional* ignition parts in older vehicles. Parts manufacturers expect sales of conventional ignition parts to phase out eventually. However, sales of conventional tune-up parts are declining more slowly than originally expected. Apparently, many DIYers are hanging on to, and lovingly tending, their old dream cars. ■

TRENDS FOR FAST-TURN PARTS

Products	1984 Retail Sales ($ Billions)	Real Growth Rate 1984-90	% Via Chains	Outlook To 1990
Filters	$2.0	2.0%	41%	Chains strong, specialists rising.
Spark Plugs	$1.1	-1.5%	53%	Chains strong, specialists rising.
Ignition Parts/Wire/Cable	$1.5	-2.6%	21%	WDs weak, shift to specialists
Total	$4.6			

Source: The Lindsey-Kaufman Co.

A HARD LOOK AT HARD PARTS

pumps, and other parts, many of which can be remanufactured parts.

Looking to 1990, the Frost & Sullivan report expects that retail sales of replacement parts will increase at about 5.5% per year in current dollars, or 1.5% per year in terms of real growth.

The study estimates that automotive chain stores and mass merchandisers account, respectively, for $4.2 billion and $3.1 billion of the 1984 total. In other words, volume retailers have made inroads in hard parts sales and now account for somewhere between 20% and 21% of the replacement parts business. However, the bulk of the hard parts are still sold via professional installers (car dealers, garages, gas stations, tire dealers, independent and franchised specialists) who are supplied either by the carmakers' parts divisions, the WD/jobber channel, or by expediters and buying groups.

How Things Were

In what some consider the "good old days" of the aftermarket, you could expect that the majority of hard parts categories would increase in sales faster than the economy as a whole. Steady increases resulted from the net effect of increased population, increased mileage, and the relatively fast growth of the vehicle fleet.

Since the early 1970s, however, there have been slowdowns in all of those areas.

COOLING SYSTEM PARTS

In a manner of speaking, cooling system parts—belts and hoses, thermostats, caps, radiators, and add-ons like transmission coolers, engine oil coolers, electric fans and fan clutches—are the hot spot in hard parts sales.

In most other hard parts categories, the outlook is for slower growth resulting from design improvements. *Some* products in the cooling system category appear to be lasting longer, in particular the new ribbed "serpentine" belts which reduce the number of parts needed because one belt does the work of three. However, the main trend in the cooling system area is for faster wear-out of parts as a result of factors which include:

- Smaller cars with small, hot running, high rpm engines.
- Emission controls with more heat from catalytic converters.

With higher heat there can be faster wear-out of rubber and plastic elements in the system. High heat also places a great stress on the engine coolant. In some cases, coolant is circulating at temperature of 240° F. Failures of the cooling system are a major cause of premature engine failure.

At Stant, a thermostat manufacturer, marketing manager John Blommel notes some factors reduce aftermarket demand for cooling system parts such as the increasing inaccessibility of components and extended warranties. Blommel said, "Formerly, the thermostat was located in an easy-to-reach spot on the top of the engine. All you had to do was remove a couple of bolts. In today's small cars it is harder for DIYers to reach thermostats without detaching other components. As a result, the DIY portion of the market may decline."

Regarding the impact of warranties, Blommel observes that under 12/12 warranties, car dealers get about 20% of the replacement cooling system business—including replacement of thermostats. Parts manufacturers believe that extended warranties may mean a big increase in replacement parts business done by car dealers. That, of course, would mean less business for independent installers and retailers.

But again, there are opportunities for retailers nevertheless. Complete new replacement radiators are one of those opportunities.

Historically, the approach to radiator problems was to rebuild the radiator on a custom basis. The advent of "completes" has resulted in sales gains by WDs, jobbers and generalist installers at the expense of old-line "re-coring" specialists. About 90% of the installation of "completes" is done by professionals. However, the installation is not very difficult, so approximately 10% of sales are obtained via DIY-oriented chains.

At Modine Auto Cool, marketing manager Dale Roble notes that the cooling system is becoming integrated with other systems on the car—air conditioning, for example. Therefore, in the future DIYers may find it trickier to detach and replace radiators; that is, they will have to exercise care not to interfere with other automotive systems.

The important fact, however, is that as of 1987 there is a growing DIY market for complete radiators. Radiator replacement is rising—sales are increasing in *units* at between 5-10% per year—and chain stores are happy to participate in the business.

Roble says, "At Modine, we believe in making available very full lines of radiators. We stock 500 part numbers. However, we don't expect retailers to stock anywhere near that number. Some successful chains stock 15-20 of the most popular numbers at their stores and rely on our specialist feeders to provide quick delivery of slower movers.

"We work with chain stores to develop programs that meet their individual needs. For instance, some chains prefer to buy everything direct and do their own warehousing, some prefer to have the services of one or more feeders—and some prefer to do some of both, stock the popular movers and rely on feeders for the rest.

"Chain stores have found that many customers will accept overnight delivery. Auto Shack sells many radiators on the basis of its 'Express Parts' overnight service," Roble said.

Oil coolers are another area of opportunity for retail sales. Back in 1961, Perry Hayden developed the first transmission oil cooler. Since then, Hayden Inc. has become the best known producer of add-on cooling system items including engine coolers, add-on electric fans and flex fans.

Most of the items in Hayden's line are used on vehicles under stress from carrying or towing heavy loads. The typical customer is the owner of a truck, 4WD vehicle, or sedan used for towing a house trailer or boat. These tend to be the same kind of performance-minded, upscale people with active recreational interests who buy premium suspension systems.

In a sense, sales of cooling system parts like replacement radiators and add-on coolers may be the means for off-setting declining sales potential on other hard parts such as conventional ignition and carburetor parts. ■

TRENDS FOR COOLING SYSTEM PARTS

Products	1984 Retail Sales ($ Billions)	Real Growth Rate 1984-90	Outlook To 1900
Belts/Hoses	$0.6	4.0%	WDs & jobbers remain strong
Water Pumps	$0.6	3.5%	in wholesaling because of
Gas/Oil/Radiator Caps	$0.2	1.9%	parts proliferation problems.
Thermostats	$0.4	1.9%	Opportunities for quick
Replacement Radiators	$0.4	7.5%	service specialists.
Oil Coolers	NA	NA	Chains, specialists strong
Total	$1.9		

Source: The Lindsey-Kaufman Co.

A HARD LOOK AT HARD PARTS

In addition, vehicle engineering changes since the early 1970s have resulted in longer lasting (albeit more expensive) parts in most categories.

Also back in the "good old days," volume retailers were not the players in the hard parts game that they are today. From the 1960s through present, volume retailers gained share of the aftermarket and of hard parts sales via:

- Increasing their number of outlets.
- Increasing their emphasis on automotives versus non-automotives.
- Increasing their advantages over local jobbers in terms of purchasing power, merchandising ability, advertising know-how, and resources.

It is also important to remember that the automotive chain store market is not exclusively a DIY outlet. Besides DIY sales (and, for some chains, service bay sales), all automotive chain stores receive some "walk-in" business from professionals. The chains get this business partly on the basis of highly competitive prices—lower in many cases than the prices charged by jobbers—and convenient hours of service. Some chains actually solicit wholesale business by offering discounts to installers.

The Volume Retailer And Hard Parts

Initially, volume retailers achieved their greatest aftermarket share gains on "soft lines" such as motor oil, waxes, additives, antifreeze, accessories and fast turnover, DIY-oriented replacement parts such as filters, spark plugs, wiper blades, and automotive lighting. To be sure, some mass merchandisers have dropped out of the aftermarket or have reduced the amount of floor space they devote to automotives.

The more important trend with these retailers, however, has been to become *more* automotive oriented. That is, to place even more emphasis on sales of hard parts, performance parts, and parts add-ons (like oil coolers). These volume retailers have made gains on hard parts sales largely at the expense of jobbers.

The big question for the future is: Will the chain stores continue to gain hard parts market share considering today's competitive market factors? These factors include:

- **Extended warranties**, which may hold more business at the car dealers.
- **The rise of service specialists**, some of which (like muffler shops) appear to have gained share of market partly at

UNDER-CAR PARTS

Under-car hard parts include brakes, exhaust systems, and suspension systems. While it may appear that these categories are being gobbled up by the specialty installers, each still offers sales opportunities for retailers.

For instance, brake parts manufacturers believe the bulk of replacement hydraulic components are installed by professionals. In fact, chain stores find that a large—and growing—percentage of car owners are seeking professional brake installation. The gainers in the brake parts business are under-car service specialists, including brake specialists, muffler/brake/shock specialists, and tire dealers.

On the other hand, there is an active DIY market in brake friction products. In fact, some retailers observe that it seems easier for DIYers to replace disc brake pads than drum brakes. One retailer says, "Talk about 'complex technology!' When disc brakes came in, manufacturers told us DIYers would *never* be able to install them—too complex. In fact, they are simpler to replace."

Exhaust parts is another category going to specialists. In fact, this is probably the prime example of the penetration into the aftermarket made by service specialists. Consumer surveys undertaken over a ten year period show steady gains by muffler shops—and steady declines by mass merchandisers.

But again, there are sales opportunities for retailers who will take advantage of them. For instance, performance-type mufflers are still largely installed by DIYers. Responding to this demand, Maremont introduced a new Turbo Muffler. Ron Newton, Maremont vice president marketing, describes the performance muffler by saying, "It has a throaty sound and it produces less back pressure. It is also a *universal* muffler: five SKUs cover all applications. It is designed to bring some excitement back to the stores."

When it comes to under car-parts, some of the real sales opportunities for retailers come from the suspension category, especially from high performance schocks and suspension parts. These products appeal to two customer categories of interest to retailers:

- Performance-minded customers: By definition, these people are willing to pay a premium for parts which exceed original equipment specs.
- Owners of pick up trucks and four wheel drive vehicles: These have been two of the fastest growing types of vehicles for the past ten years. These people tend to have active recreational interests (hunting, off-road touring) and require extremely rugged, high performance ride control parts.

As one example, this year retailers are going to hear more about Rancho Suspension's line of premium quality shocks, stabilizers, overload springs and other suspension parts. The reason is that Rancho products have an excellent name among those performance-minded customers and owners of trucks and 4WD vehicles.

Founded in 1955, Rancho Suspension gained its initial experience in developing suspension systems for race cars in endurance races such as the Baja California run. Later, Rancho concentrated on developing premium quality shock absorbers and other ride control products (coil springs, bushings, add-a-leaf overload springs) for light truck and 4WD application. In the early 1980s, Rancho added lines of shocks and suspension products for cars such as Camaro, Firebird, Thunderbird, Cougar, Mustang and 1978-85 GM mid-size automobiles.

Rancho's marketing concept is based on superior quality, pricing comparable to other premium quality suspension lines, 50% fewer SKUs (resulting from innovative approaches to consolidation), and a complete program of retail selling aids.

Gene Shook, president of Rancho Suspension notes that, "SEMA's recent market study showed that 80% of high performance customers have made their brand decision before they enter the store; only 5% buy any other brand other than the one they had in mind when they entered. Brand recognition and brand loyalty are extremely important in sales of performance products." ■

TRENDS FOR UNDER-CAR PARTS

Products	1984 Retail Sales ($ Billions)	Real Growth Rate 1984-90	Outlook To 1900
Brake Parts	$2.1	[illegible]	A major shift in business from
Exhaust Parts	$2.0	1.3%	installers served by jobbers
Shocks/Struts	$1.0	-1.5%	to service specialists,
Steering Parts	$1.1	5.6%	tire dealers and service-oriented
Suspension Parts	[illegible]	[illegible]	chain stores.
Total	**$6.2**		

Source: The Lindsey-Kaufman Co.

A HARD LOOK AT HARD PARTS

the expense of DIY-oriented chains.

- **Complex, computer-controlled components**, which may discourage DIY installation.

The Future Of Hard Parts

There are *wide* differences of opinion on how these factors will affect the volume retailers' ability to sell hard parts. Some of the opinions clearly reflect wishful thinking. For example, numerous WDs and jobbers believe – or want to believe – that the trend toward computer controlled fuel systems will mean the decline of DIY installation. To the extent that these WDs and jobbers serve DIYers, they see this as hurting themselves, too.

However, the really big losers, they believe, will be the "mass merchandisers" (in this group, they include automotive chain stores). There appears to be a consensus among the WDs and jobbers that the volume retailers will be confined to selling "soft goods." Their rationale: new automotive systems are so complex that even *professionals* have difficulty in knowing what parts aren't working and how to replace them. Therefore, DIY-oriented chain stores will be at a loss because they lack the resources to guide DIYers in installing such things as injectors and oxygen sensors.

And WDs and jobbers are not alone in holding these opinions; they are shared by some hard parts manufacturers.

Not surprisingly, the chain stores have different opinions. They *are* worried about extended warranties. They tend to believe that the 5/50 warranties on emission controls do hold business at the car dealerships, business which might otherwise represent sales for the independent aftermarket – including DIY-oriented retailers. They resent what they perceive as a lack of cooperation on the part of carmakers in making technical training data available.

But, on the question of viability of the DIY business, they are (or seem) quite optimistic. One senior executive of a major chain store said, "Don't underestimate the ability of our young people to deal with these new products. These days you see seven-year old kids operating PCs." In other words, high-tech youths can handle high-tech parts.

Some automotive service experts agree with this view. One said, "Replacing these so-called exotic parts is actually easier – much, *much* easier – than the conventional parts. Take fuel systems, for instance; it is a cinch to replace parts of electronically controlled fuel systems. And no judgment is involved; either they work or they don't work. By comparison, a carburetor is a complex system with considerable need for adjustments and fine tuning – certainly more judgment."

However, three manufacturers of fuel system parts see the situation differently. One said, "Physical replacement of electronic components *is* easier, cleaner, and nicer than replacing conventional components. But, you have to know whether the item ought to be replaced – meaning, that the DIYer or installer has to have diagnostic capability – and you have to *locate* the faulty item; not always easy to do – in fact, often *hard* to do."

On that last point, another product manager said, "I can think of 12 sensors which might fail on a 1986 Buick. Three of them look identical, are located within an inch of each other, and control three entirely different functions!"

Another product manager observed, "Replacing fuel injector parts can be tricky – even hazardous. You are dealing with gases under pressure. You have to know how to bleed the system. That takes knowledge."

Education Is The Key

Nevertheless, growth in hard parts sales is there for alert participants. At the retail level, finding growth may be a matter of emphasizing products for fast growth vehicle categories (parts for foreign-make cars in some regions, or parts for pick-ups, vans, and FWD vehicles in others). Growth may also be a matter of achieving market share gains by doing a better job of making needed/wanted parts available, offering competitive prices, and doing more and better merchandising and advertising. And, increasingly, growth may come from doing a better job of educating consumers on the selection and installation of hard parts.

Here is a look at where the sales opportunities are in some hard parts categories. ■

BOLT-ON PARTS

Bolt-on parts such as fuel system parts, carburetors, water pumps, and a variety of remanufactured parts also offer sales opportunities for retailers. Manufacturers of these parts, like Tomco Inc. of St. Louis, MO, promise to "sell solutions" to a variety of engine problems.

Tomco manufactures a broad and growing line of fuel system replacement parts. Tomco is known for its carburetor kits, but also sells fuel injectors. New this year at Tomco are oxygen sensors, EGR valves, throttle holding solenoids and engine coolant temperature sensors.

Tomco's advertising manager Ed Henne says, "Customers want to know where these items are located in their fuel systems." To help answer these questions, Tomco makes available a display header which shows the location of the various components and elements of the fuel system, according to Henne.

Are fuel systems getting too complex for DIYers? Henne answers, "Not really. The systems are more sophisticated, no question about it. However, the big question is diagnosis. We see hand held diagnostic computers coming along which will aid car owners in doing their own fuel system work."

Fuel systems are not the only items in this hard parts category.

Walt Delevich, manager of marketing services for the SKF Automotive Products Div., says his company has a comprehensive merchandising approach for selling engine parts, chassis parts, cooling system parts, and the SKF complement of anti-friction bearings and rods. The SKF system features catalogs, displays, and packaging and is designed to:

- **Sell up to the higher priced, higher quality, new parts with the lifetime warranty, and**

- **Sell related items, and not just its own division's items but *other* items needed for the complete job which are profit makers for stores.**

For example, the SKF water pump catalog and packaging reminds the DIY customer of the need to replace belts, coolant, thermostats and clamps. This is clearly a benefit to the retailers as well as the DIYers and installers. ■

TRENDS FOR BOLT-ON PARTS

Products	1984 Retail Sales ($ Billions)	Real Growth Rate 1984-90	Outlook To 1900
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	
Total	$6.2		

Source: The Lindsey-Kaufman Co.

SERVICE MARKET REPORT

SERVICING A SYSTEM FOR LOVE AND MONEY

Why cooling system work should be your favorite service bay money-maker.

by **David A. Evans,** Contributing Editor

Why do I love cooling/heating system service? Let me count the reasons.

One reason is that it tends to be a periodic maintenance service—as opposed to involving intensive diagnostic capability. All the mechanic has to do is look at the month and year during which the car was built to discover whether or not the service can be recommended. He takes this information, compares it with the recommended service interval in the owner's manual, or his service desk reference book, and then decides whether or not the correct time interval has elapsed.

David A. Evans has participated in the aftermarket for over 25 years. He has worked as a line mechanic in a dealership, has owned a chassis shop, and has owned an 18-bay general service facility. His technical, sales, and management training material are in use by a variety of well-known automotive manufacturers. Dave would be happy to take your questions or comments, and can be reached at (312) 394-5349. We would also appreciate your comments.

More Reasons To Love This Service

Another reason to love cooling/heating system service is that it is almost a "no brainer" as far as cost is concerned.

While prices do vary across the country, seldom have I seen an advertised price which would put this system service into the category of an extravagance. Almost anyone who can afford one of the later model cars, which demand more frequent cooling system service, should be able to afford the reasonable pricing put on this service.

Besides, this service has slipped into a mode of "magic," or promotional, pricing, which is now a good mode.

From a service department standpoint, I am often wary of "magic" pricing, because it tends to depress income for the least flexible cost factor: wages. In the case of this service, however, I think "magic pricing"—on both the commodity and the functional service—works to the chain store's advantage.

First of all, this is a commodity-related service which the customer easily understands. It involves a product, antifreeze, which, by itself typically enjoys promotional price status in almost every market in the country. Thus, customers can compare a complete system service price, relate it to the price of antifreeze in the market, and perceive a true value, if that is what's being offered. (Of course, if it is a lousy price which is clearly too high—shame on you.)

Second, as drivers educate themselves to the need for this service (just as surely as they have educated themselves into the need for oil changes) they will *look* for cooling/heating system service specials. This gives the store with marketing muscle a chance to excel. And, this leads me directly to the next point.

Chains Do Well Here

The automotive chain store is probably in the best position to offer the customer the product, service, price, and value he wants. Since chains have the buying power on the antifreeze, they are in the best position to offer the stunning promotional prices which the value-oriented consumer looks for. Chains are in a unique position to attract customers who shop the ads.

Second, chains tend to have the continuous, year-long media dominance required to get the business. Cooling/heating system service can no longer be considered seasonal, since it is now needed

SERVICE MARKET REPORT

periodically, according to the carmakers. Aftermarket retailers can take advantage of both mindsets to stimulate service. In addition to regular inspection systems, cooling/heating service can continue to be a part of a Fall and Spring module in your promotional plans.

However, as I said earlier, the service need is periodic. Since all cars tend to need ethylene glycol in their systems throughout the year (as opposed to just in Winter), and since there is no longer a Summer/Winter change of thermostats with the seasons, we can truly say, "Any time is a good time for cooling system service, so long as the service interval recommended by the manufacturer is the reference."

Thus you must build awareness of the service need at all times. Clearly, the retailer with a year-round media advertising program designed to build traffic will get cooling system work. Businesses which do only seasonal promotion, and do not do system inspection on every car which rolls into their bays, are getting only part of the business. A small part.

The Service Is Simple

The service is simple because the routine is highly mechanized. Cooling/heating system service is not a drain and fill operation. It is a flush and fill operation—and more. But the flushing aspect is not handled by men, but by machines. If you are going to do this service, then you need the highest-tech flushing equipment you can buy. You want to be able to plug the machine into the system, and let the technician do other work while the machine does its duty. That way you can double up on the time, income, and profit from this service.

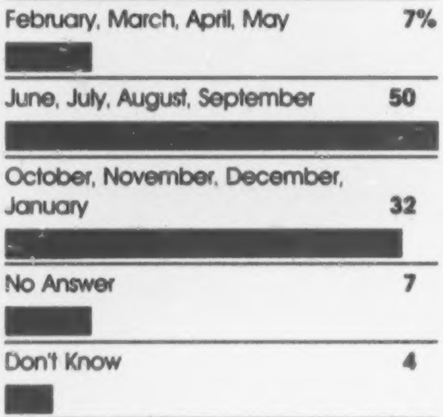
But just because this service is simple, it doesn't mean there is no training involved. Your staff should have periodic updates in system service from the vendors of your service hardware. If your suppliers don't provide this training, then you have the wrong service suppliers.

There Is A Nasty Trap

What you don't want to discover as you service the cooling/heating system is a failed water pump, a cracked head, a cracked block, or a failed seal or gasket. If you find an easy-to-replace water pump, of course you want to do the job. It is good add-on business and most mechanics can handle a simple water pump replacement with relative ease. But there are some water pumps which are buried deep in the engine compartment. These pumps defy fast and profitable replacement in the face-paced, volume oriented automotive chain service bay.

COOLING SYSTEM SERVICE

We asked our Retail Panel: "In what months do you have the most demand for cooling system repairs?"



Source: *Automotive Marketing's* 1987 Retail Panel

A cracked head or block or failed head gasket is also cause for dismay. The cracked block is not your cup of tea unless you install short block assemblies (few chains do, in my experience) and the cracked head is almost as bad.

The determination that one or more of these time traps might bury your men on a particular car comes from a careful visual evaluation of the engine compartment and coolant condition, plus careful questioning of the customer. Only a well-trained and alert service writer or manager can keep on top of these potential profit busters.

There is a way to handle these jobs profitably if you have the vision it takes to see it: extend your hours.

Since you don't want to tie up quick service bays with slow service work, wait until the day is over, then roll in the hard ones for late night and overnight service. You may need to stagger your service bay hours to provide late night service. More and more service vendors are doing this.

Or you can offer overtime on the more specialized and skill-oriented tasks, such as "deep" water pump replacement, head work, and block replacement. Many technicians enjoy this sort of work, and other just like the extra money. You will seldom have trouble finding volunteers for this work.

Inspect For Profit

When it comes to cooling/heating system service, antifreeze is not the profit maker. Hoses, clamps, belts, valves, heater cores, heater fans, radiators, expansion tanks, water pumps, anti-leaks chemicals, fans, fan spacers, fan clutches and the like are the big winners.

But you don't get this business without effort. Inspection is critical. If the mechanic doesn't look for the work in the first place, then the service will not be purchased.

And the add-on sales will only come when the mechanics have the tools required to test the car properly and know how to use these tools.

The major tool for this work is a system pressurizer. These are designed to put pressure throughout the cooling system to stimulate latent leak conditions.

I'm going to tell you a little secret: Most mechanics are too lazy to use these devices correctly. They pump up the system, look at the register needle for a few seconds, then do a quick inspection to find the obvious faults.

This is not good enough.

The instructions on these devices say the designated test pressure is supposed to hold for at least *two minutes*. Minor leaks become major leaks when the technician does an adequate pressure test. Quick and dirty is not good enough.

When you get after your mechanics on this point, they usually respond by just pumping the system up to a higher pressure to help speed the process. By doing this, they also burst good heater cores which is still not the right thing to do. You need to avoid this syndrome as well, which means you must constantly evaluate their ability to do a system diagnosis correctly.

You must also be certain they repeat the pressure check after the work is done. This is the extra step that ensures the job is truly done.

In my shop, using the pressure tester, even the best of my mechanics found fittings which weren't quite tight enough after doing very profession work. Your true professionalism will be found in the fact that you test the system under pressure before and after the the major work, too. ■

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Chilton's
AUTOMOTIVE MARKETING

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INTRODUCTION

The aftermarket can seem overwhelmingly complex. This volume is designed to help sort out the complexities.

The automotive aftermarket can seem overwhelmingly complex, no matter whether you're talking about the distribution channels, the inventory needs, the competition, or the customer mix. This volume, our second annual Retail Aftermarket Guide, is designed to be an aftermarket primer for newcomers to the market and a graduate refresher text for veterans.

From macro subjects to micro topics, the articles in this volume examine today's state-of-the-art methods for selling parts (and service) to the owners of our nation's fleet, particularly those who are responsible for maintaining their own cars and trucks. We've tried to cut through extraneous ideas to get to our material's core, no matter what our subject: the complex marketplace itself described in our first chapter, or vertical marketing to specific customer niches in a piece on lifestyle marketing.

At *Automotive Marketing*, we define ten market regions according to their geographic, sociological, and meteorological characteristics. So, the five county area containing Miami is its own unique territory. We explain this area, the Caribbean South, and its nine comparables, in an article on regional marketing.

Besides the regions, we take a good look at the people who buy aftermarket products, using data from our 1984 *Consumer Automotive Repairs Study (CARS)* and our 1987 *CARS* study to examine the trends of DIY activity during the past three years.

You can't market without products. Our chapter on products looks not only at the various product categories for automotive DIYers, but also at the special customer market segments within the aftermarket—truck, van, and utility vehicle owners, performance enthusiasts, and professional installers.

And, with the products in mind, and the target customers identified, you must be operationally strong. Our chapter on operations covers expansion and financial alternatives for growth.

More and more automotive parts retailers are looking at the lucrative essence of a good service bay operation. Our piece on service, and how to sell it profitably, can help retailers consider the possibility of adding to, or entering, the service world.

One can't find his or her way through this marketplace without directories, and our directory section provides these in a one-source Guide. This edition includes a partial listing of who-owns-whom-in-the-automotive-market, as up to date as we could be at press time. New to this volume, too, is a list of franchise operations.

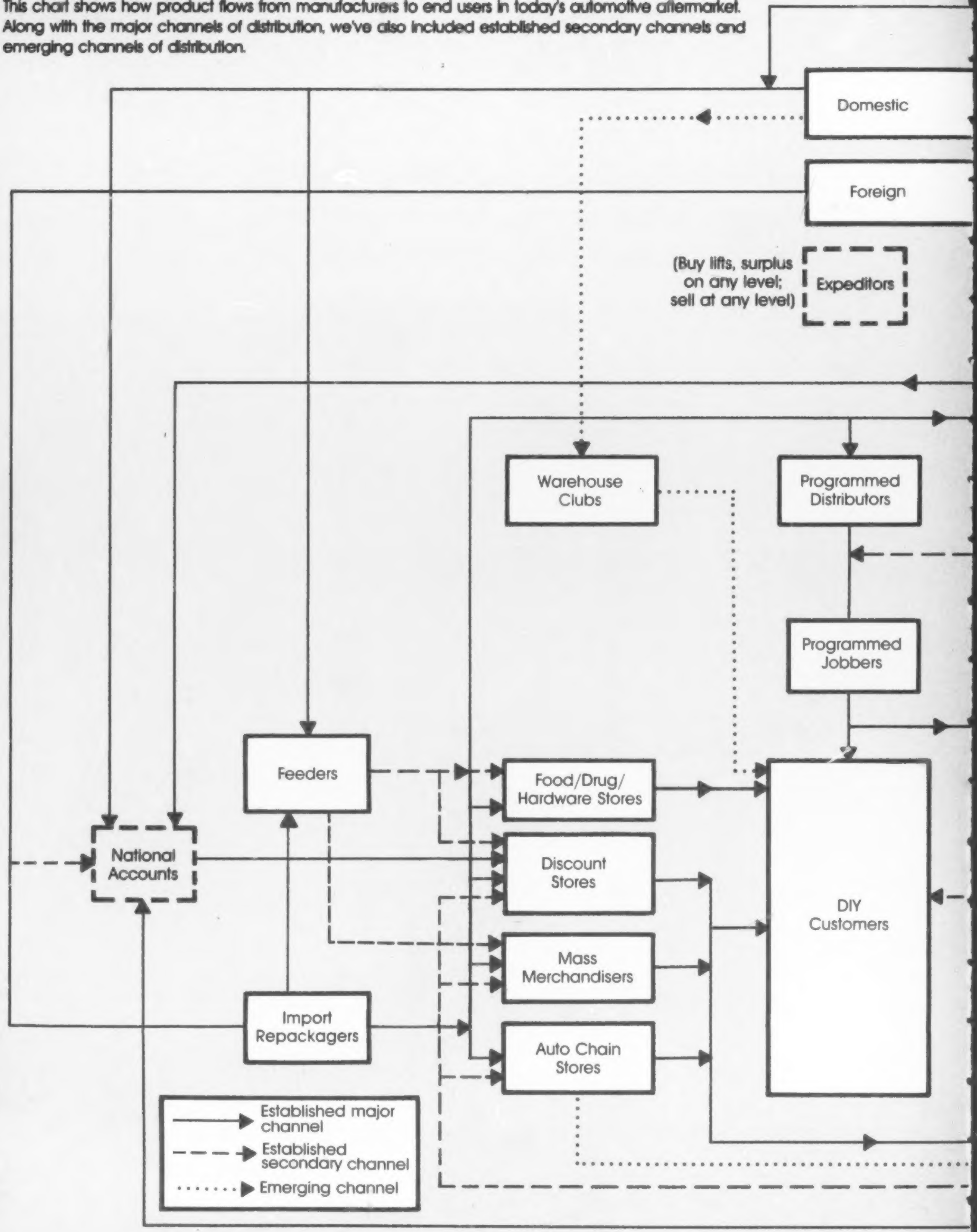
All told, *Automotive Marketing's Retail Aftermarket Guide* will provide you with a yearround reference to the retail aftermarket. It belongs within easy reach on every working day. It would not have been possible without the extraordinary efforts of our award-winning *AM* editors, our contributors, our interns, and our production staff, nor without the support of our advertisers and our sales staff.

We want to provide you with the information you require to be successful and profitable in this market. Please take a moment, when you've read through this *Retail Aftermarket Guide* for the first time, to fill out our reader response card and tell us how helpful we've been, and how we can do even better. We're anxious to hear from you. ■

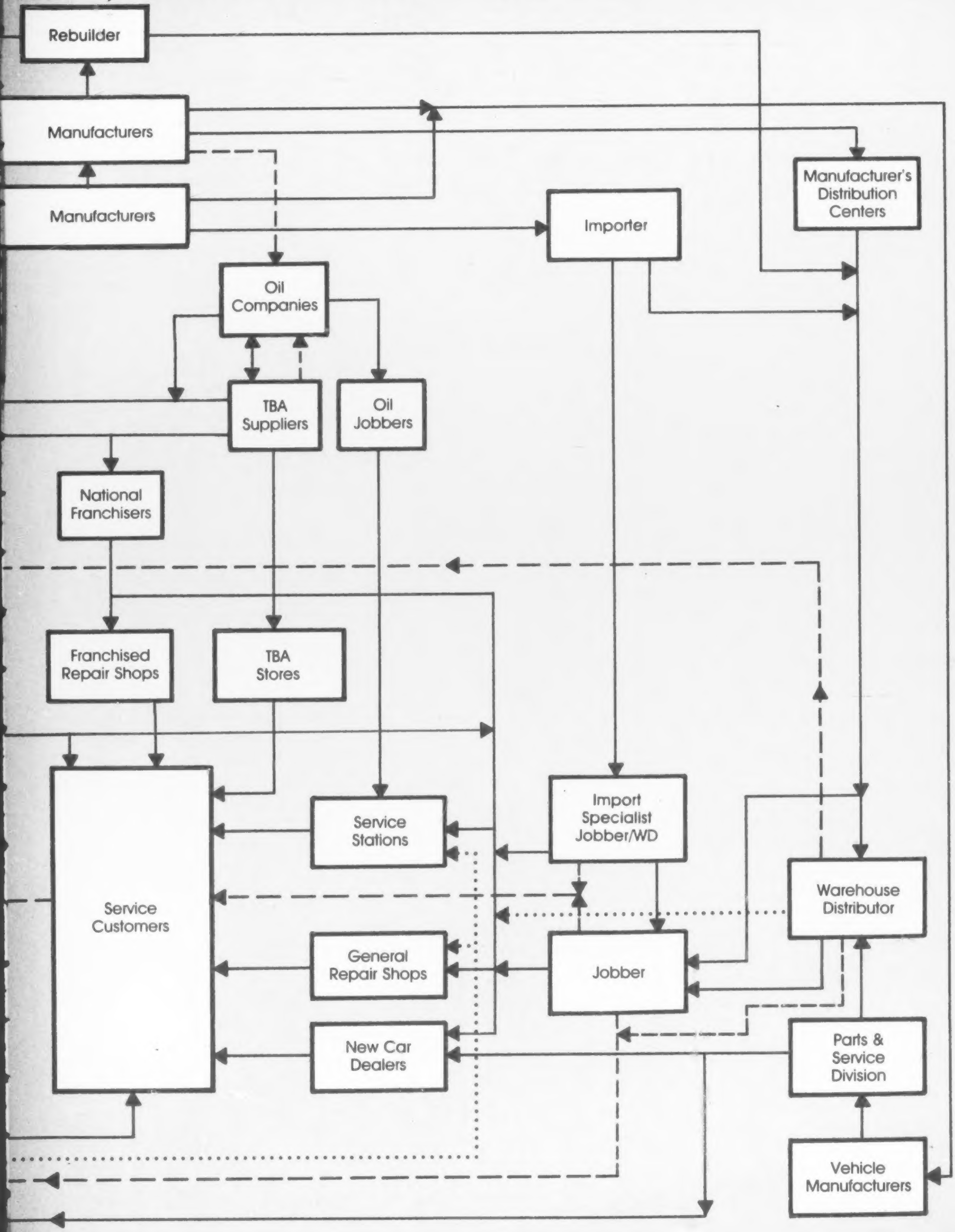
Sarah Frankson,
Publisher

AFTERMARKET DISTRIBUTION

This chart shows how product flows from manufacturers to end users in today's automotive aftermarket. Along with the major channels of distribution, we've also included established secondary channels and emerging channels of distribution.



Domestic
Foreign
(Buy lifts, surplus on any level; sell at any level)
Expeditors
Warehouse Clubs
Programmed Distributors
Programmed Jobbers
Feeders
National Accounts
Food/Drug/ Hardware Stores
Discount Stores
Mass Merchandisers
Auto Chain Stores
Import Repackagers
DIY Customers
Established major channel
Established secondary channel
Emerging channel


Rebuilder
Manufacturers
Manufacturers
Manufacturer's Distribution Centers
Importer
Oil Companies
TBA Suppliers
Oil Jobbers
National Franchisers
Franchised Repair Shops
TBA Stores
Service Customers
Service Stations
Import Specialist Jobber/WD
Warehouse Distributor
General Repair Shops
Jobber
New Car Dealers
Parts & Service Division
Vehicle Manufacturers

THE MARKETPLACE CHANGES

The aftermarket has only two end users—DIYers and professional mechanics—but there are lots of ways to reach them.

[redacted]

To understand the distribution patterns of the automotive aftermarket, simply consider the two ways a vehicle can be repaired. Either the vehicle owner can do-it-yourself (DIY), or go to a professional.

The DIY market is served by what we call the retail market, comprised mainly of auto chain stores, mass merchandisers, and jobber/retailers. Professional technicians working in garages and service stations are served by what we call the traditional market—comprised mostly of jobbers who buy from warehouse distributors (WDs).

Although this is a grossly oversimplified picture of the automotive aftermarket, it was largely accurate for several decades, until the mid-1970s. However, during the 1970s, a combination of oil shortages, inflation, and a DIY boom changed the aftermarket. Today, the channels of distribution are confused and blurred; old loyalties among suppliers, distributors, and dealers are forgotten. The market is a hodgepodge of consolidations, mergers, acquisitions, and group pressures. And, the new players in the market are now the biggest players in the market. The traditional market faces a revolution.

The single best word to describe today's aftermarket is: fragmented. What was once a well-ordered, stable market has become a confused market. A DIYer seeking a set of spark plugs can buy them at an auto chain store, a mass merchandiser, a jobber/retailer, a traditional jobber store, many grocery, hardware, and department stores, some drug stores, and at convenience stores. And these are only the major players. A non-DIYer can go to a car dealer, a gas station, a garage, a mass merchandiser, an auto chain store, a tire store, a tune-up specialist, and maybe some outlets we missed.

How did this market change so much? Why have the lines of distribution blurred? Who are the new players? Why have traditional loyalties eroded? We can't answer all those questions, we can only suggest some of the major trends and changes that have taken place in the market.

What we call today the traditional market (WD to jobber to professional installer) is really the new kid in town while the retail market is almost as old as the automobile. Western Auto, for example, was founded in 1909, and such chains as R&S/Strauss (1919), Penn Jersey (1920), Pep Boys (1921), and others opened soon after. In addition, mass merchandisers such as Sears and Montgomery Ward have carried automotive parts in their stores and catalogs since the Twenties.

THE TOTAL AUTOMOTIVE AFTERMARKET

Estimated 1985 Retail Sales (000)

Category	Retail Sales	Growth Rate
Service	35,942	6.5%
Parts	31,187	5.5%
Tires	9,445	1.8%
Accessories	6,907	4.8%
Motor Oil	3,238	2.4%
Chemicals	3,185	5.7%
Batteries	3,183	3.5%
Total	93,087	5.3%

Source: Lindsey-Kaufman Co., January, 1987

In fact, the aftermarket was basically in place in the Twenties with three channels of distribution. By 1929, there was a well-developed OE service market (car makers and their dealers), a retail aftermarket (parts and accessory manufacturers selling to car owners through auto chain stores), and an independent repair market (parts suppliers selling to independent garages through jobbers).

The New Car Dealer

Of the three channels, car dealers have been least important to the aftermarket. By and large, the new car makers gave away the after-warranty car repair market to the other participants. There was too much money to be made by selling new cars to worry about the smaller profits in repairing old cars. There were also fewer hassles from angry consumers.

According to service industry research, car dealers had a 32% share of the service market in 1972; by 1985, their share had fallen to 19%. Also, the number of car dealers continues to decline. Between 1980 and 1986, the number of new car dealers dropped from 29,800 to 25,800, not all of whom offered service.

There are some signs of change. For one, the new car makers are starting to push extended service warranties that cover major parts of the car for up to 50,000 miles in an effort to bring the service customer back to the dealer. Also, companies such as Ford, Nissan, and Toyota have also opened small parts stores in some of their dealerships to gain DIY customers. Finally, the poor car sales of the early 1980s forced many dealers to reevaluate their service departments, and they found that service departments can become profit centers with a little effort.

However, the success of any of these signs has yet to be seen. Only import car dealers have managed to keep a substantial amount of service work (an estimated 40%) at the dealership, and this is more due to lack of strong import parts programs at independent repair shops than a love of dealers by car owners. But still, the complexity of new cars, an aging population, and a growing number of female car maintainers are all demographic trends that will help the dealerships in years ahead.

The Retail Market

Of the three channels of distribution, the retail market has changed least in its structure and practice. Chain stores typically began by selling accessories that car makers did not sell as OE equipment. As time went on and aftermarket companies expanded into parts, the retailers followed. But they began by buying direct from the factory and continue to buy direct. Their chief support, then and now, is the DIY customer.

Although it has not changed in structure or practices, the retail market has changed in management. The growth of retail sales and the success of retailers in the Seventies brought a whole new player into the aftermarket. First, there was the non-automotive retailer selling automotive products, and secondly, and more important, the conglomerate, a non-automotive retailer which bought auto stores.

The Conglomerates

The reasons for the entrance of the conglomerates were standard business factors. They saw a fragmented market. They saw a market with no single national chain and with lots of single store operations. In addition, the conglomerates were quick to point out that the aftermarket was behind the times managerially. But, and perhaps most important, they saw high profits in automotive sales compared to other forms of retailing.

THE GROWTH OF THE AFTERMARKET

1920s:	Formation of the aftermarket: • 1. Car dealers served by car makers. • 2. Independent repair shops served by parts manufacturers through a network of jobbers (without WDs). • 3. A volume retail market selling to DIYers. (Western Auto, 1909; R&S/Strauss, 1919; Penn-Jersey, 1920; Pep Boys, 1921.) • 22 million cars on the road by 1929.
1929-45:	Depression and World War II.
1940-50s:	Post-War Boom: • AWDA formed. Establishment of the three-step traditional distribution (WD to jobber to installer) channel. • Forty million cars by 1950.
1950-60s:	America's Golden Age: • Ninety million cars by 1970. • "It's impossible to lose money selling auto parts." • Number of gas stations reaches over 200,000, (359,000 repair outlets in all) buying from a network of 20,000 jobbers. • Service, price, and availability the key factors. • Rise of mass merchandisers. APAA formed. • Supplier dominated distribution. • DIY sales steadily increase. Manufacturers debate selling product to volume market.
1970s:	The decade of change: • 120 million cars by 1980. • Two oil shortages close 75-100,000 gas stations. • Number of repair outlets of all kinds falls to 275,000. • Rise of programmed distribution: the traditional market pursues the DIY market. • Radical design changes in domestic cars. • Imports seize a quarter of new car market. • Parts proliferation a major problem.
1980s:	The fragmented aftermarket: • A severe recession (1980-82) drastically cuts new car sales leading to a smaller repair market in mid-decade. • Average age of cars rises to 7.6 years. • Growth of the franchised repair specialist. • Grocery/drug/hardware stores sell automotive products in large numbers. • Conglomerates buy many volume retail chain stores. • Mergers and acquisitions among WDs. • Growth of WD buying groups. Some 18 programmed groups by mid-decade serving some 15,000-plus jobbers. • Consumer-driven aftermarket. • Retail/wholesale driven distribution. • Performance/Light Truck markets become key sales growth categories. • Age of the 100-store plus Megachain. • Imports make up over 20% of cars on the road.

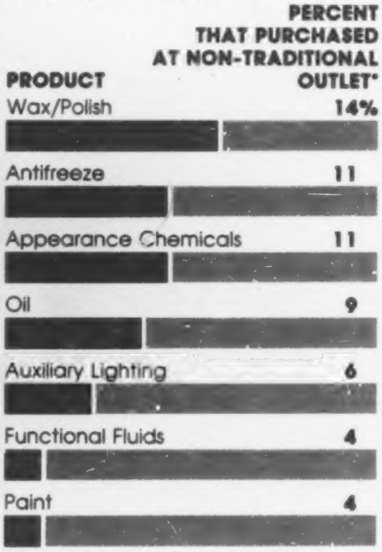
Prime examples of conglomerate operations are Perry Drug, Pontiac, MI, creator of its own Auto Works stores, which bought the Fleenor's, Corvair, and Lampert/Singer stores in rapid succession; Rite Aide Drugs, which bought the ADAP (American Discount Aoutp Parts) auto stores in Avon, MA; and also Dart Drugs, a retailer that owns 66% of Trak Auto, Landover, MD. Southland Corporation, Dallas, acquired the beginnings of its Chief Auto Stores in 1978 as companion stores to its 7-Eleven convenience stores.

In addition, there are such non-retailing conglomerates as

THE MARKETPLACE CHANGES

PURCHASES AT NON—TRADITIONAL OUTLETS

Judging from the responses of the DIYers on our study, it looks as though the non-traditional outlets (drugstores, hardware stores, supermarkets) have not yet made serious inroads into the automotive products business, at least for DIYers.



*Note: Products with less than 4% market share not included.

Source: Automotive Marketing 1984 Vehicle Maintainer Study

Northern Pacific, which owns Schuck's, Belvedere, WA, and bought the Checker/Kragen auto stores from another conglomerate, Lucky Stores, in 1986 to make the combine one of the two biggest auto chains in the country (the other is Southland's Chief Auto Stores); and Wesray, which owns Western Auto, Kansas City.

Conglomerate owners have also entered the traditional market. Two of the three largest programmed distributors are owned by conglomerates: APS (American Parts Service), Houston, the operators of the Big A stores, is owned by Wickes; and Bumper to Bumper, Fort Worth, TX, is 80% owned by Alghanim International of Kuwait. Only the NAPA program, based in Atlanta, remains independent.

The influx of conglomerate operations brought about the age of the megachain. By our count, there are eight auto chains operating, or programmed distributors owning more than 200 stores. Three, in fact, operate more than 400: The Checker/Schuck's/Kragen combine, Chief, and the Genuine Parts-owned NAPA stores. Auto Shack, Memphis, TN, (owned by Malone & Hyde) owns more than 300, Perry Drugs Auto Works, Western Auto-owned stores, Trak Auto, and AI International-owned Bumper to Bumper stores total more than 200 each. Of these megachains, only Genuine Parts is not part of a conglomerate.

Right behind these leaders are such chains as Pep Boys, Philadelphia, (probably the most profitable aftermarket retail organization) and Nationwise, Columbus, OH, both pioneers in the "automotive supermarket" concept of store design, with about 175 stores each. There is also Whitlock, White Plains, NY, which operates 145 stores under the names National, Giant, Strum, as well as Whitlock, and added Rose Auto Stores, Hialeah, FL, in 1986. Other 100-store plus chains are Grand Auto, Oakland, CA, and Advance Auto, Roanoke, VA, as well as the APS-owned Big A jobber stores.

The main impact of conglomerate ownership has been money. Because of their resources, they are able to open stores much more quickly than independent chains. Because of their resources, the number of DIY stores has grown so rapidly that many wonder if the aftermarket is becoming overstored. In addition, the newcomers brought management expertise and computerized systems to the aftermarket.

Other Retailers

Besides the conglomerates who bought auto stores, other retailers simply added automotive products to shelves during the mid-1970s, lured by high margins on automotive products and the growing interest in DIY. Oil, antifreeze, and chemicals became part of the product mix carried by supermarkets, drug, and hardware stores. Some of these outlets even tried their hand at selling hard parts along with cold cuts, vitamins, and nails. In 1986, the Automotive Parts & Accessories Association (APAA) counted 91,400 grocery stores; 15,600 drug stores; 19,000 hardware stores; and 4,300 variety stores carrying some kind of automotive products.

Some 85% of supermarkets carry oil while 65% carry oil and other automotive supplies, according to *Progressive Grocer* magazine. Based on industry data, we estimate that automotive product sales at these outlets totaled about $290 million with a gross profit of about $76 million in 1985.

Some 30% of all drugstores now carry some automotive products. Today, the typical drug store auto department is between 20 and 100 square feet and has a average profit margin of between 30% and 39%, according to retail drug industry figures. Drug stores sell fast moving aftermar-

THE AFTERMARKET PLAYERS

There are a number of different players in the aftermarket game. In numbers alone, service stations led the list of those retailers that sold automotive parts in 1983, when these figures—the most recent available—were compiled. DIY-oriented auto parts stores are sixth on the list.

Service stations	130,100
Auto repair shops	129,200
Grocery stores	86,100
Other outlets	49,400*
Jobbers	31,600
Auto parts stores	27,000
New car dealers	26,700
Hardware stores	18,200
Drug stores	15,000
Tire stores	12,200
Discount stores	7,000
Variety stores	5,300
Department stores	2,500

*Includes car washes, motorcycle and RV dealers, appliance stores, radio/TV stores, etc.

Source: APAA, The Foundation for Aftermarket Industry Research, *The Retail Distribution of Automotive Products, 1984*

THE MARKETPLACE CHANGES

SUCCESS FACTORS FOR FULL LINE AUTOMOTIVE RETAILERS

While no one factor can guarantee retail success, certain combinations make some stores more successful than others. These factors will gain in importance as the stores of the future compete harder and harder for customers. Will you be ready?

Factors	Average Sales Per Square Foot
Products Carried	
Heavy parts	
yes	$112
no	86
Engine parts	
yes	116
no	91
Safety/comfort/sound	
yes	120
no	99
Bay service	
With service	128
Without service	110
Location	
Downtown	91
Industrial area	128
Shopping mall	108
Suburban	140
Residential	125
Rural	102
National average	112
Hours Open Per Week (Summer)	
Less than 40	107
40–44	43
45–48	56
49–54	142
55–64	122
65 or more	98

Factors	Average Sales Per Square Foot
Hours Open Per Week (Winter)	
Less than 40	95
40–44	58
45–48	43
49–54	149
55–64	122
65 or more	99
Method of Inventory Management	
Card system	98
Other manual system	109
Computer	156
Card and manual	87
Other manual and computer	78
No system	63
Card and computer	91
Type of Training Offered	
Formal training on selling skills	149
Formal training on mechanical skills	76
Supplier product training	141
Selling and mechanical	95
Selling and supplier	115
Mechanical and supplier	198
None of these	98
Other	100

Source: APAA

ket items like oil. Chemicals are carried by nearly all drug stores stocking automotive; and slightly more than half sell small engine parts such as filters.

Hardware stores have the strongest foothold among non-traditional automotive products stores. For, unlike supermarkets and drug stores which rely on shopper traffic and impulse sales to move automotive items, hardware stores have been able to cash in on their track record of meeting the needs of determined household DIYers. Consequently, some *automotive* DIYers have turned to hardware outlets for their aftermarket needs. Key products for hardware outlets include paint, wax/polish, and other appearance chemicals.

While such non-automotive retailers have found some success with automotive products in the store, none has gained any substantial market share of any category. Still, because so many stores stock fast movers like oil, antifreeze, filters, and chemicals and have driven down prices in these categories, auto chains began to expand parts offerings during the 1980s. Gradually, retail chains began to increase the parts they stocked until they were selling practically everything but heavy engine parts. Chains that sold 3-4,000 SKUs in 1970 were typically stocking 8-10,000 SKUs by 1985.

The increase in SKUs brought retail stores closer to jobber stores (which usually stock 15-20,000 SKUs) and in recent years, a number of retail chains have begun to investigate the potential of selling wholesale to professional mechanics. This may become a major trend.

Selling Wholesale

For many years a topic of conversation in the automotive aftermarket has been how jobbers can successfully compete for retail business. Now, the tables are turned and we hear a new topic: the pursuit of wholesale business by retail chains.

Is retailer-wholesaling already a major trend? No, it is not. Moreover, some well-managed chains think this is a bad idea, in terms of dilution of effort. For example, when Grand Auto acquired Top Auto stores, a jobber/wholesaler in the Pacific Northwest, Grand converted Top Auto to its standard 100% retail format.

Grand Auto's Bob Seymour said, "You can only wear one hat. You can be a retailer or a wholesaler but not both. Our future is in retailing. We have one price for all customers. We couldn't offer dealers discounts from our prices and remain profitable. It costs a retailer 30-33% just to open the doors."

In addition, the majority of retail chains do not have active plans to increase their share of the installer market.

Today, the majority of retailers fall into the category of *accepting* wholesale business. Just about every chain store obtains some dealer business. The reasons are fairly clear: longer hours and very competitive prices.

In this category is Union, NJ based R&S/Strauss. Vice president Gary Hunt says that the chain is happy to serve professional installers, "But only on our terms." The chain attracts some dealer business on the basis of price and because it has longer

THE MARKETPLACE CHANGES

SHOULD YOU PURSUE DEALER SALES?

Why dealers like retail stores

- Convenient hours (evenings/weekends)
- Better prices
- Good parts coverage (All A's, some B numbers)

Steps to take to bring in more dealer sales

- Credit
- Keep resale numbers
- Well-trained counterpeople
- Deeper parts coverage (B/C numbers)
- Phone orders ready and waiting

What's needed to aggressively pursue dealer sales

- Dealer discounts
- Delivery
- Wholesale manager
- Outside salesman

hours than nearby jobbers. In addition, R&S/Strauss does not charge dealers sales tax if they have filed their resale numbers with the store.

Some chains go so far as exempting professional installers from sales taxes and, in many cases, offering them a discount from the retail prices.

Wholesale business is often associated with parts counters and countermen. Chief Auto has no parts counters in its revamped stores. However, it competes for dealer business on the basis of long hours (seven days a week, with many units open 24 hours per day), competitive prices, and dealer discounts.

In fact, one of the responsibilities of Chief District Managers and Territory Managers is to solicit dealer business.

Only a minority of automotive chains can be described as actively *soliciting* dealer business. However, there are some indications that this trend may accelerate over the next few years. Here are five reasons why:

- **The demand is there.** Professional installers are willing to save money on parts purchases by patronizing "cash and carry" sources.
- **The chains can compete for dealer business.** Retail chains attract installer business, whether trying to or not, because of more convenient hours of service and more competitive prices.
- **They stock a broad range of hard parts.** Chain stores intend to compete by offering more complete lines of parts for DIYers, and for installers.
- **Technology is changing.** The DIY trend may or may not have peaked. We all recall times in the past when experts said, "Amateurs will never be able to work on these new cars because they are too complex." DIYers have proved to be remarkably adaptable. However, some categories of parts are clearly harder to install than they used to be. It might be smart to aim for a share of the installer market.
- **Demographics are changing.** There is a shift to a population of car owners who are older and, presumably, more professional service-oriented. Also, there is a big increase in women car owners. Some of these segments may have to be reached via professional installers.

Pursuing Dealer Business

Although ADAP was founded as a 100% retail operation, ADAP recently opened an 18,000 square foot experimental Warehouse Store, intended to be both a warehouse (for the surrounding ADAP stores) and a retail outlet which will be open to all comers—including installers. As against approximately 10,000 SKUs in typical ADAP stores, the new (and experimental) Warehouse Store will have 15,000-16,000 SKUs. While the precise number remains to be decided, ADAP intends to carry an inventory sufficiently broad to be attractive to wholesale customers.

In fact, ADAP hopes to draw dealer business by offering attractive discounts to professionals. ADAP will omit sales taxes for dealers who file their resale numbers. In addition, it will offer professional discounts over its already attractive prices. The amount of the discounts will vary by product category.

ADAP stores have a "front of the store" salesman and a parts-smart "back of the store" salesman. The new warehouse store will be run by a manager who is knowledgeable about parts sales and wholesale operations. All parts will be displayed on the floor for easy self-service. However, wholesale customers will also have the assistance of in-store salesmen.

Several reasons led ADAP to the "Warehouse Store" concept:

- **The system-wide need to stock a broader range of hard parts.**
- **The desirability, therefore, of having a company feeder.**
- **The evident appeal of "Warehouse Clubs" to professionals.**
- **ADAP's proven ability to compete with jobbers for dealer business.**
- **The feeling that installer business may become more important in the future because of demographic factors.**

An important part of ADAP's

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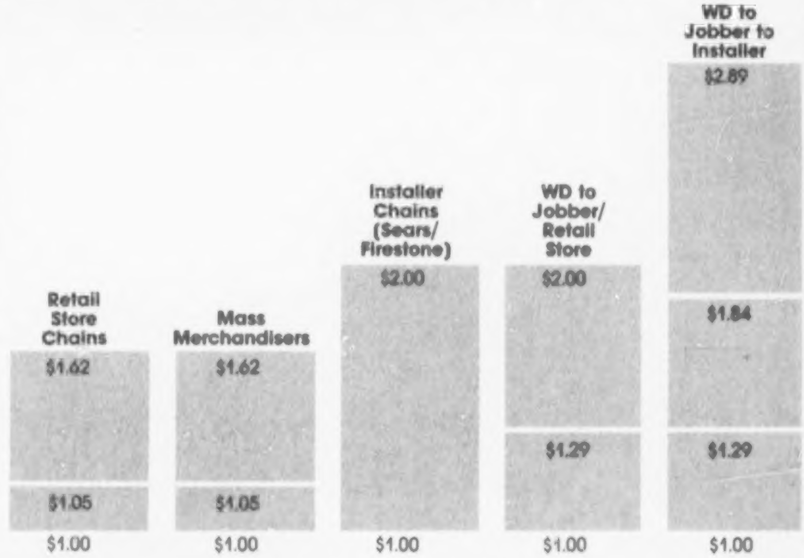
COMPARATIVE ANALYSIS OF PRICING BY CHANNELS OF DISTRIBUTION (BASED ON SUPPLIER PRICE OF $1.00)



Parts and Turns (estimated):

Parts	10,000	1,000	5,000	30,000	30,000
Turns	5x	8x	8x	2x	2x

Observations

- Traditional jobber is 22% higher than retail chain on popular DIY products. Explains market share erosion.
- Installer chain has a 42% price advantage over WD/jobber/installer channel on popular service jobs.
- Unpopular jobs are less sensitive to price competition from for installer chains.

Conclusions For Programmed Distribution

- Agressive pricing on fast moving items.
- Move into popular service channel.
- Increase margins wherever possible on unpopular (less price sensitive) products.
- Market share shifts between mass merchandisers and retail stores due to inventory breath and not price.

Source: AI International

plan is to avoid inventory increases at its basic retail stores in favor of a movement to central feeder stores than can resupply surrounding ADAP stores and serve as cash-and-carry wholesalers to professional installers.

While debating the pros and cons of the installer market, it's important to remember the fact that DIYers account for only about one-third of the total parts market. To compete for the larger portion of the market, retailers have to get dealer business.

Wholesalers Retailing

At the same time, jobbers, supported by WDs, have made great efforts to get into retailing in a big way. In fact, over the years, the so-called traditional channel has changed more than either car dealers or retailers in the way it goes to market.

There was no national network of WDs until the late 1940s. But, with the formation of the Automotive Warehouse Distributors Association (AWDA), suppliers quickly saw the value of regional WDs functioning as factory agents and receiving a 28-33% commission.

Thus, by the Fifties, the route an automotive part followed from its manufacturer to the ultimate consumer, the car owner, was pretty simple. The supplier sold it to a WD who sold it to a jobber (so-called because he sold by the job), who sold it to a mechanic, who installed it for the consumer. In 1956, for example, 46% of all replacement parts were sold through wholesalers and another 33% sold through car dealers.

The traditional market grew through the establishment of a network of gas stations built by the major oil companies to sell their gas and oil. There were gluts in oil production (oil was imported originally because it was cheaper than American oil), and oil companies competed bitterly to gain share. In order to attract gas and oil customers, the oil companies promoted their dealers' service business. The growth of gas stations and cars on the road after World War II was a boon to the wholesale market, which serviced the stations with everything except TBA (tire, battery and accessory) parts. By the Seventies there were well over 200,000 gas stations buying products through traditional channels.

The 23,000 or so jobber stores were and still are the keystone of the traditional market. The jobber's primary customer is the gas station or garage; he also sells to car dealers who need replacement parts quicker than they can get them from the car maker. There were always a few DIYers who also bought from jobbers, but jobbers made little effort to sell the DIYer. In fact, many discouraged DIYers in order to protect the professional mechanic.

The jobber looked upon DIY retail stores with disdain: "The

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snake oil and fuzzy dice people" was one of the kinder descriptions. Although the DIY stores grew in the 1950s and 1960s, their influence and market share was miniscule (except in chemicals and accessories) until the 1970s. Parts were strictly a traditional market staple. Indeed, many national suppliers would not sell to retailers in order to protect their WD customers. What parts were sold in DIY stores tended to be off-brand or white box parts.

So until the Seventies, DIY sales were only a small concern to the traditional market. Despite steady DIY growth in the Sixties, the traditional market on the whole continued to maintain its business which was essentially wholesale, and pretty much ignored the DIYer. And, because of steady growth in business, it did not have to change. The market was controlled and stable.

It took the two gas shortages of the Seventies to end the stability. The two shortages closed over 80,000 gas stations and repair shops and forced many car owners to change their car repair habits. A good number became DIYers. These new DIYers would have been natural customers for jobbers. Many of them needed advice and succor. However, most jobbers continued to discourage DIY business. A major WD described the process succinctly. "We sort of let this happen. We sat around with our heads in the sand and allowed retailers to have the retail market. It's just like the car companies were to blame for letting us have the repair market years ago. If we'd acted 10 years ago with the programs we have now in merchandising and advertising, the retail chains would never have gotten a foot in the door. Now we have to go back and battle them for our share."

Programmed Distribution

The traditional market responded with the development of programmed distribution groups. These groups largely appeared during the 1970s, although the two largest, NAPA and APS, date from 1925 and 1952 respectively, and offer a jobber a program of merchandising, marketing, and advertising assistance. More importantly, they enable jobbers to buy as members of a buying group rather than at an established list price. By 1986, about half of all WDs and about two-thirds of all jobbers were affiliated with some kind of programmed distribution group. And most large programmed distribution groups of jobbers average 30% or more of their sales to DIYers.

Programmed distribution simply means that a jobber does not only buy goods from a WD affiliated with one of the groups, he buys the complete program. A programmed WD takes the product all the way through the channel from acquisition to merchandising. To do this, the WD must be more than a sales agent for a supplier. The WD has been forced to reexamine practices that have been established for years.

For example, the retail market buys direct from manufacturers. In effect, it eliminates one step in the distribution system—the WD level. This means that typically a $1.00 part will sell in a chain store for $1.62. The same part will cost the jobber $1.29 from the WD and he'll sell it to the installer for $1.84, who in turn will sell it to the consumer for $2.83. Jobbers traditionally hate to discount so they will sell the part to a DIYer for somewhere between $1.84 and $2.83. Thus, a weakness of the traditional channel is its inherent inability to effectively compete on a *price* basis with the retail store.

While this price difference has always existed, until recently it wasn't as important since jobbers did not worry about DIY customers. The chief economic result of the Seventies was runaway, double-digit inflation, a stagnant economy, and high interest rates. Between 1967 and 1980, the cost of living index more than tripled. Gasoline that cost about 30¢ a gallon in the Sixties sold for over a dollar by the Eighties. Following the second gas crisis in 1979, the country went into a recession that many compared to the depression of the 1930s. All but the most necessary repairs were postponed if not eliminated.

The net result was an extremely price-conscious consumer who took one look at the prices in jobber stores and stayed away in droves. Also, as a result of new players in the market, and new methods of marketing the old services, the consumer can now pick and choose to an extent that was never possible 30 years ago. The aftermarket, like other markets, is now consumer-driven.

Better pricing was needed to win this customer for the jobber. The programmed distributors are increasing the use of private labels. The buying power of the larger groups allows them to demand a short line private label from their suppliers. Private labels give the groups an opportunity to sell the consumer on the program, rather than the product. The national program creates a chance for the WD to buy quality products from a supplier at a lower price than the national brands and pass the savings to jobbers with no loss in quality.

In addition, group power has led to better pricing in jobber stores, and better advertising and marketing programs. Indeed, many new stores opened by some of the major programmed distributors look more like a retail store than a traditional jobbing store with lots of glass, bright lighting and signage, big displays, long aisles and endcaps, and cleancut personnel in these stores.

By and large, the program groups feel they're over the hump on retailing. Jobbers who want to aggressively retail do so. By copying merchandising techniques from the volume retailers and through group purchasing power they feel they've reached a satisfactory limit of about 30% DIY sales. In fact, in recent

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years, it's often hard to tell the difference between a retailer and a programmed jobber.

The WD's Situation

Faced with a smaller controlled service market and a still strong DIY market, more aggressive WDs have been going after new business. Some of their new customers are DIY retailers, mass merchandisers, tire stores, and service specialists. Beyond serving non-jobbers, some WDs have opened jobber stores themselves, a trend that will probably increase in the Eighties.

WDs are also reevaluating their position vis a vis their suppliers. Some WDs speak of a "mistrust of the supplier." In the WD's view, suppliers were seduced away from the market that had faithfully served them for many years by the retail market. Worse yet, the WDs suspect the volume retailers are able to buy at better prices because of their size. WDs feel that because competition was created by the suppliers' greed, they've been forced to do things they hadn't contracted for, which eroded their margins. If suppliers will sell to anyone, WDs say, that demands a revamping of the pricing structures. At the very least, they want to buy fast movers at the same prices that retailers do and "unbundle" pricing. The traditional market feels it is able to demand better pricing mainly because of the growth of programmed distribution. They feel that because the programmed groups have become so large, the market has become customer-driven at this level, rather than supplier-driven. For example, one observer said that the number of purchasing points today is only about 60% of what it was 10 years ago.

Observers also feel the independent WD is in deep trouble. The industry is going to go more and more to controlled distribution, and WDs are looking to groups for salvation. Independents say their business is deteriorating and they fault the groups. They say they're almost forced to join a group. They say vendors take advantage of the independent. Programmers smile and say when suppliers talk to groups, they know they're talking to a lot of WDs with buying power. If they want distribution in an area suppliers have to deal with the group.

Service Market Changes

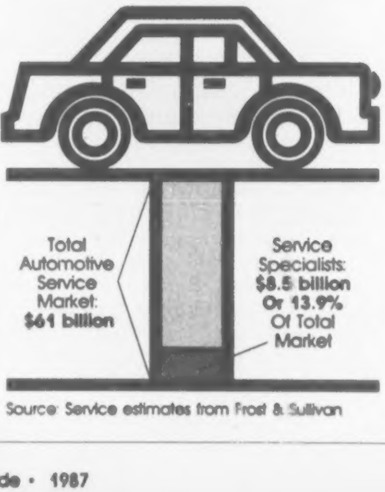
At the same time the general feeling is that DIY has peaked. Almost unanimously, traditional people think an aging population and the complexity of new cars will drive consumers back to the professional installers. Accordingly, their thinking runs toward finding a way for programs to aid the traditional market's traditional customer—the professional installer.

However, the traditional market has also seen changes in the service market. Along with DIY competitors, an area the traditional market had more or less conceded already, the Seventies saw direct service and installation competitors enter the market. First, there was the move by tire store chains into service; and second, the rise of the service specialist.

Tire store chains began to emphasize service simply because improved radial tires meant fewer tire sales. Tire sales fell off from about 140 million per year in the Seventies to about 120 million in the Eighties. In order to survive, national tire chains like Firestone and Goodyear, which already had service bays, expanded their service offerings and began to advertise such things as tune-ups, brake jobs, and shock/strut replacements. Those that did not move into service saw trouble ahead. Between 1980 and 1983, for instance, some 2,600 went out of business.

SERVICE SPECIALISTS: HOW BIG ARE THEY?

As of 1984, service specialists of various types accounted for retail sales of $8.5 billion out of a total automotive service market estimated at $61 billion.



Source: Service estimates from Frost & Sullivan

Some found this move was to their advantage. For example, AAAD (Association of Automotive Aftermarket Distributors, whose programmed jobber stores are called Parts Plus), in Memphis, worked out a deal to serve all Goodyear tire stores direct from the Memphis warehouse, and local Parts Plus jobbers fill in with hotshot service. That deal has been the envy of other programmed groups.

A second response was the growth of specialized outlets for transmissions, mufflers, lubrication, and tune-ups and other quick services. By 1986, there were 16,900 such outlets in business.The overall picture for specialized dealers has been excellent, and it's another area worth looking at closely.

Specialty Service

Service specialists of various types—lubrication, tune-ups, mufflers/brakes, transmission rebuilding, etc.—are having the same kind of impact on the automotive service business that fast food franchises have had on the restaurant business.

But, like the fast food industry, specialty service chains will not take over the entire automotive service world. There will continue to be important places for independent general repair shops, car dealers, gasoline service stations, service centers operated by mass merchandisers, auto supply chains, and tire retailers.

The specialist chains now account for only a small portion of

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SPECIALTY REPAIR SHOPS MARKET SHARE

As our chart shows, the specialty repair shops have gained a substantial market share in under the car work like exhaust and suspension. Today, tune-up shops and fast lubes are the fastest growing franchises and their shares will no doubt increase.

Product	Estimated Share of Market
Muffler	39%
Catalytic Converter	19
MacPherson Struts	11
Conventional Shocks	7
Brake Shoes/Linings	7
Spark Plugs	3
Air Filters	3
Oil Filters	3

Source: Andrew Hill, General Battery

the total automotive services market. In 1984, service specialists accounted for estimated retail sales of $8.5 billion out of an automotive service market of about $61 billion, for an estimated 14% of the market. Nevertheless, specialty chains are significant because they are growing much faster than the aftermarket as a whole, obtaining higher turnover and higher profits than other participants.

In oil changes, tune-ups, mufflers and brakes, the success of specialists is, in part, at the expense of parts retailers. Car owners who patronize quick lubes represent lost sales of take-out oil. Some of them used to be DIYers.

Specialization gains efficiency and proficiency by concentrating on a specific service. From the specialist's point of view, the narrower the focus the better. On the other hand, changes in markets can push specialists to widen their focus.

For example, the lubrication business is populated not only by specialists such as Jiffy Lube and Minit Lube with drive-through facilities dedicated to quick lubrication services, but by tune-up specialists. Tune-up specialists entered the lubrication field reluctantly; they prefer to concentrate on tune-ups and engine diagnostics. However, many car owners prefer to get an oil change at the same time as a tune-up. In addition, lubrication can be a great draw and traffic builder for many types of service. Therefore, today, most tune-up shops compete for oil change/lubrication business.

There is also a link between brake services and exhaust system services. Muffler shops are encountering slower growth in their basic business. As a result, they are moving into brake service, another under car service in which they feel comfortable. In effect, virtually all muffler specialists are (or are becoming) muffler/brake specialists.

Oil Change And Lubrication

Opinions differ about the penetration of lube specialists into the multi-billion dollar market for passenger car and truck motor oil. But O.D. Felty, vice president of Valvoline branded sales, estimated 1984 unit sales at close to 600 million gallons and retail sales at slightly over $2.9 billion. Take-out (DIY) sales represented an estimated 57% of gallonage and 49% of retail sales dollars. Motor oil sold on an installed basis accounted for 43% of gallonage and 51% of sales dollars.

Everyone agrees that motor oil is now a slow growth business—except for quick lubes. Frank Fadil, of the Charles H. Kline Co., Fairfield, NJ, said, "Quick lube centers will experience strong growth in 1984-89 at the expense of mass merchandisers and other service companies. Quick lube sales are expected to increase from 20 million gallons in 1984 to 45 million gallons in 1989. As volume more than doubles, quick lubes will capture a 6% market share. In terms of installed purchases, quick lube centers will double their market share from 8% in 1984 to 16% in 1989."

Reasons For Growth

Motor oil business observers cite three reasons for this growth:

- **Decline in full service gas stations.**
- **Changes in demographics, specifically, slower growth in DIY-oriented youths and older blue-collar males, faster growth in cars owned by women, and service-oriented "yuppies."**
- **The attraction of convenience and fast service.**

There are more than 2,000 quick lube centers in operation now. By 1990, there will be at least 3,200. Jiffy Lube alone plans to have 1,250 operational then.

Some operators attempted to establish themselves in the quick lube business by taking over and remodeling abandoned gas stations. The most successful operators, such as Jiffy Lube (Baltimore), Minit Lube (Salt Lake City), and Grease Monkey (Denver) achieve high volume by building specially designed and equipped drive-through facilities. Their through-put can more than double that of a shop which has to back cars out of its garage.

Quick Lube Competition

Finding suitable, high traffic locations and building drive-through facilities require substantial amounts of capital. Jiffy Lube intends to grow from 350 outlets in 1986 to 1,250 outlets by 1990 with Pennzoil as a partner in the construction of 325 centers to be opened by 1988. Not to be outdone by Pennzoil, Quaker State bought outright control of Minit Lube. Minit Lube is the number two quick lube chain with 110 outlets at present. An aggressive expansion plan financed by Quaker State will double the number of Minit Lube outlets.

Following the 1986 moves by Pennzoil and Quaker State, other oil companies are jumping in the business rapidly. Valvoline bought Rapid Oil Change, a Minneapolis operation with 45 company-owned stores, and Kendall joined forces with Avis Rent-A-Car to plan 1,700 quick lube stores.

The impact of the oil companies can bring about even faster

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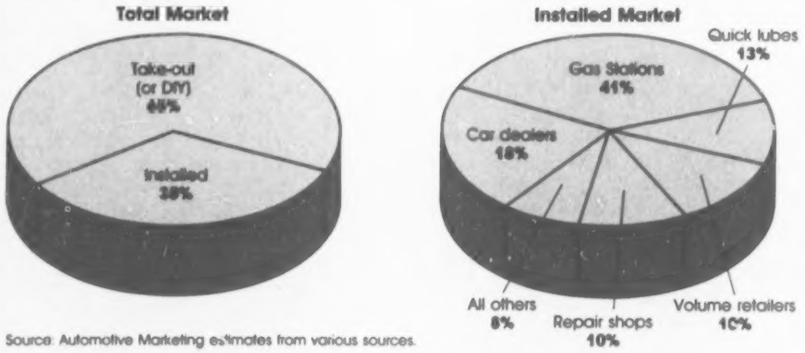
THE MOTOR OIL MARKET



Source: Automotive Marketing estimates from various sources.

growth to a booming industry. One effect may be price wars. The average quick lube, oil change price is about $20. But one long term owner noted that companies could profitably lowball the service for $13-$14 and "bring DIYers out of the woodwork." The long term effect on DIY oil sales could adversely affect one of the leading traffic builders in retail stores.

Tune-up Specialists

The Champion Spark Plug Company estimates that about 67% of the car and light truck fleet receives a tune-up each year, or about 102.5 million tune-ups in 1985. Champion's surveys indicate 34% are DIY at an average of $33.90 on parts per tune-up. So the DIY business retail value was nearly $1.2 billion in 1985.

Champion also estimates the average price of professional tune-ups (parts plus labor) at $73.90, an average of $84.70 for car dealers, and $74.60 for garages. There was a professional tune-up market of about $5 billion in 1985.

We estimate that tune-up centers receive an average of $49 per tune-up. Champion said that tune-up centers account for 5% of all tune-ups, or more than 5 million tune-ups in 1985.

So our calculations suggest that tune-up centers sold over $250 million in 1985 or more than 4% of total tune-up sales dollars (DIY as well as professional) and 5% of the professional market. However, the number of tune-up shops is increasing rapidly and so is the revenue per shop.

Tune-up specialists such as Bill Childs, founder and head of Precision Tune, have their eyes on a 40-50% market share. Childs sees this as an obtainable goal for tune-up specialists in the 1990s.

Why Tune-up Specialists Grow

According to Champion's surveys, car owners patronize tune-up specialists for convenience: the ability to get a professional job without waiting a long time.

The tune-up specialists attribute their growth to trained and competent personnel. At Sparks Tune-Up Centers (owned by Maaco), president Dan Rhode observes, "There is a hole in the market caused by the closing of more than 100,000 gas stations since 1974. Also, the number of car dealers has declined. There are fewer places a car owner can find to obtain tune-ups. In addition, cars have become more complex. This has resulted in a smaller role for DIYers—and for the mass merchandisers who are not committed to the service business."

Andy Granatelli, the outspoken head of Tune-Up Masters (recently purchased by Cardis, a California conglomerate and WD), sees the tune-up trend as part of a larger trend one. "There is a need for specialists in *all* automotive services, not just tune-ups but brake, suspension and you name it. The day of the Mom and Pop shop is over. In the future, only specialists will work on cars. In fact, there is a trend to specialization even within tune-up shops. Today we have specialists who rebuild carburetors, fuel injection specialists and specialists on computer controls."

Another View

Bill Childs, of Precision Tune, probably the largest in the category with 314 shops in operation and 70 scheduled to open, says, "The changes in automotive technology have been so rapid in the last few years that it is terribly hard for non-specialists to keep up. Frankly, it is hard enough for *us* to keep up and to keep all of our franchisees up to date. I can imagine how difficult it must be for an operator of a general garage to understand the latest fuel systems."

According to Childs, tune-ups "used to be replacement of plugs, points, condensers, and, if necessary, rotors, distributor caps and plug wires. Newer cars have fewer ignition parts to replace, but more need for proper diagnosis. We may find that the ignition system is OK but there are problems with the valves. We may have to repair the carburetor or fuel injection system, or we may have to replace the oxygen or temperature sensor. In addition, we do some straight diagnostic services. DIYers pay our shops $15 to $20 to check out their vehicles."

Muffler & Brake Specialists

Today few muffler specialists do not offer, or plan to offer, brake services.

A latecomer to this movement is Meineke Discount Muffler Shops, Inc. Meineke vice president of dealer services Gene Zhiss says, "Actually, a number of our franchisees have wanted to offer brake services for some time. We tested our ability to offer brake services in Chicago and announced the decision to offer these services in October 1985. Since then, 250 of 565 Meineke shops have gotten operational in brake services."

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Meineke's average brake ticket is $170, a price Zhiss believes to be lower than other shops and garages.

Market Size

Muffler shops are a good example of the power of specialist retailers in gaining market share. In 1970, gas stations were the leading muffler installer. Muffler shops were tied for third place with car dealers. By 1980 muffler shops were dramatically in the lead with a 33% market share, and gas stations had lost half of their market share. Car dealers had also lost half their share.

Currently, retail sales of exhaust system parts (mufflers, pipes, clamps) in 1985 are estimated at about $2.1 billion. Of this amount, the market breaks down like this:

• Muffler shops	**35%**
• DIY sales	**25%**
• Garages & service stations	**24%**
• Chain stores	**10%**
• Car dealers	**6%**

Midas International, in business 30 years, has 1,441 franchised outlets. The cash investment in a Midas store currently is $160,000. Meineke, with 565 franchises in place (and another 105 on the boards), requires a $85,000 cash investment. Tenneco Automotive owns two muffler franchises: Car-X Service Systems, Inc. (100 outlets, investment of $120,000) and Speedy Muffler King (200 company-owned outlets in U.S., 150 in Canada, 140 in Europe; investment of $130,000-$150,000).

How They Did It

Muffler specialists, franchised and otherwise, have gained market share by promoting convenience, attractive prices, warranties, and the ability to serve a wide variety of makes. They train extensively and use specialized equipment such as pipe benders. The best operators cultivate and maintain a professional image: attention-getting signage, clean service bays, comfortable waiting rooms; backed by heavy local and national advertising.

Muffler specialists are tough competition. The president of one chain of 28 tire/service centers says, "We are working like the devil to increase our service business—but we stay away from exhaust system service. The specialists are hard to beat."

They are tough competitors for each other, too. This makes them confident that they can succeed in other under car services. At Meineke, for example, president Ron Smythe says, "We are used to stiff competition. It hasn't prevented us from increasing our sales." This, he points out, is in a business which is supposed to be slowing down because of longer lasting OE mufflers. Smythe considers the brake business a growth market.

Brake Business

Meineke sees brake service as an important add-on to its basic business. "Among the Meineke shops in the brake service field, brakes represents an increment of 10% to 20% over their muffler business. As a company-wide goal, we are aiming at a mix of 60% muffler/40% brakes and other under car services," Zhiss said.

The brake service field is seen as less seasonal than the muffler business. Zhiss says, "There is a pronounced summer peak with mufflers. We see brake service as more of an all-year business which fills gaps for our franchises. Not all our franchises have gaps. We have many locations which are so busy with muffler work that they gross $800,000 per year. However, in hotter, drier parts of the country where mufflers last longer, we think our franchises will benefit by offering brake services."

Indeed, specialized retailers have continued to take an steadily increasing share of market in all their respective specialities. In addition to taking a wider share of market, specialty repair shops deprive the traditional channel of one more customer.

While some specialty shops do some buying through local WDs and jobbers, the majority of their stock is supplied from national warehouses.

The Future

Survival of the fittest is a good term for the future of the aftermarket. Right now, the aftermarket is mature. Traditionally, the market grew simply because the number of cars on the road grew. More cars needed more repairs which meant more sales. While the number of cars is still growing, it's growing at a much slower rate than previously.

In addition, the age of cars continues to increase. In 1986, some 27% of the cars on the road were more than ten years old. By comparison, this figure was only 11.6% in 1970. This should be good for DIY sales since older cars are usually repaired mainly by DIYers.

A Motor and Equipment Manufacturers Association (MEMA) study of cars in operation found that the core aftermarket (cars 3-11 years old) actually shrank from 70.2 million in 1984 to 67.6 million in 1985, and 67.3 million in 1986. The reason for fewer cars in the core market is simple. Cars that entered the core market in 1985 were sold new in 1982, a terrible year for new car sales with just under eight million sold. Those leaving the core market were sold new in 1973, which was an 11.4 million car sales year. Allowing for scrappage rates, the net was a 2.6 million decrease.

However, in 1987 and 1988, the new car sales increases in 1983 and 1984 will crank up the core market again. The number of cars in the 3-11 year old category should increase by 1.6 million cars, a figure still below that of 1984 however. There is also another hitch for the aftermarket.

The MEMA study also points up the increased importance of imported cars. The percentage of imports in the core market has increased from 16% in 1980 to 23% in 1986. While the market will increase by 1.6 million cars, the number of domestic cars will actually decrease by 600,000.

The growth is all in imported cars, which will increase by 2.2 million cars.

This means two problems for the aftermarket. First, providing a strong program in parts for the growing number of imported cars. The strength of import car dealers for import cars repairs shows this remains a serious problem for the aftermarket. Domestic suppliers have still failed to provide complete lines of parts for imports. This means retailers and jobbers both have to find new suppliers for many parts. And, import car makers are trying to control the distribution of these parts through dealership programs and close ties with their OE suppliers.

What will happen in this area is anyone's guess.

Secondly, as the huge numbers of older cars are scrapped and replaced by newer cars, many DIYers who previously owned a simpler car will be faced by the more complex automotive technology that entered the market in the 1970s. There are many who say that these cars are simply too hard for DIYers to deal with because of electronic ignitions, front wheel drive, and other technologies. To deal with these complexities, the aftermarket is going to have to show DIYers they can continue to repair their own car.

For the last 20 years or so, the aftermarket has seen a decline in the traditional market and the rise of DIY. Right now, those companies that specialize in a well-defined and narrow services or products, or who meet DIY needs, are the companies that are growing the fastest. What happens in the future, however, depends to a great extent on the growth or decline of DIY. If DIY declines, the future could be split between specialty outlets and a resurgent traditional market. If DIY continues to grow, programmed distribution jobbers and the mass merchandisers—automotive chain stores and non-automotive retailers—will be the ones to watch. ■

AMERICAN INDEPENDENT MARKETING INC.

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STUART LANDOW
President

AMERICAN INDEPENDENT MARKETING
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(Circle 8 on Product Information Card)

THE AFTERMARKET INDEX

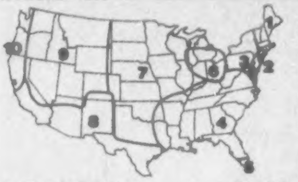
THE 1986 *AUTOMOTIVE MARKETING* MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index.The products include a non-resistor spark plug; an oil filter; a can of 10W30 motor oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

1986 NATIONAL AVERAGE MARKETBASKET PRICES

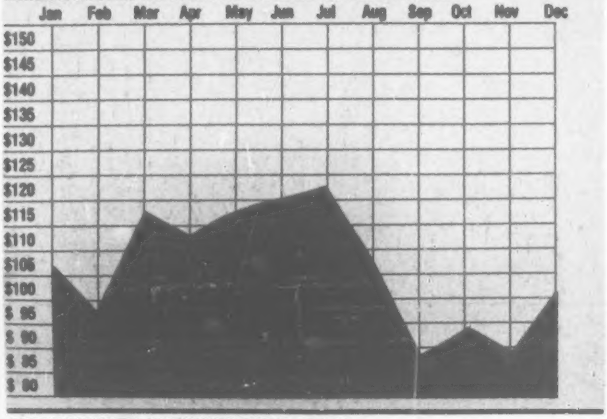
A non-resistor spark plug:	$ .73	A gas-charged shock:	$ 13.63
An oil filter:	2.04	One gallon of antifreeze:	3.42
A can of 10W30 oil:	.77	One pair of wiper refills:	2.24
A can of paste wax:	3.66	A 40-month battery:	31.20
An AM/FM/Cassette:	48.91	**Total:**	$106.60

AVERAGE 1986 *AM* MARKETBASKET PRICES BY MARKETING AREA



		3. Smokestack East:	$106.28
		4. Old South:	108.18
		5. Caribbean South:	113.72
		6. Smokestack Central:	108.44
		7. Grainbelt Central:	105.55
		8. Spanish West:	101.74
1. Greenbelt East:	$95.58	9. Desert West:	109.58
2. Megapolis East:	102.28	10. Greenbelt West:	101.69

NATIONAL AVERAGE MONTHLY 1986 AFTERMARKET BASKET PRICES



AFTERMARKET BUSINESS INDICATORS

	Unit/Base	1985	1986*	1987*	% Change 85-86	% Change 86-87
Personal Income	billions	$3,314.5	$3,487.6	$3,669.8	5.2	5.2
Personal Consumption Expenditures	billions	$2,600.5	$2,759.5	$2,919.9	6.1	5.8
Consumer Price Index	–	1.9	3.5	3.6	–	–

* 1986, 1987 are estimated figures.

AMERICAN-BUILT CARS SOLD IN 1986

American-made car sales for December 1986 finished the year up 16% higher than December 1985, for a year that showed overall growth. Ford, Chrysler, and American Honda were December's big winners. For the year, however, Ford sales dropped slightly, as did General Motors. And American Motors continued to bleed. But Japanese nameplate cars did well in 1986.

Maker	1986	1985	% Change
American Honda	235,247	145.976	61.2%
American Motors	75,853	123,449	-41.0
Chrysler	1,173,463	1,139,936	2.9
Ford	2,066,507	2.070,392	-2.9
General Motors	4,532,798	4,607,458	-1.6
Nissan	52,602	39,794	32.2
Volkswagen of America	73,912	77,535	-4.7
Total U.S. Industry	8,214,663	8,204,540	0.1

Sources: E.F. Hutton & Co., Motor Vehicle Manufacturers Association

1986 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various retail chain, manufacturer, and distributor common stocks in different stock exchanges for the 52 week period prior to December 31.

	Exchange	52-week High	52-week Low	12/31 Quote	P-E
Armor All	OTC	$12^{1}/_{2}$	$10^{1}/_{4}$	$10^{5}/_{8}$	–
Cardis Corp.	AMEX	10	$5^{7}/_{8}$	$7^{3}/_{4}$	7
Champ Parts	OTC	11	$3^{1}/_{2}$	$7^{5}/_{8}$	28
Champ Spk Plg	NYSE	$11^{7}/_{8}$	$8^{5}/_{8}$	$10^{7}/_{8}$	–
Crown Auto	OTC	$4^{1}/_{4}$	$3^{1}/_{4}$	3	–
Dana Corp.	NYSE	$36^{1}/_{2}$	$25^{1}/_{2}$	$34^{7}/_{8}$	16
Durakon	OTC	18	$6^{1}/_{2}$	$11^{1}/_{2}$	15
Echlin	NYSE	$20^{5}/_{8}$	14	$19^{3}/_{4}$	17
Genuine Parts	NYSE	$48^{3}/_{8}$	$35^{3}/_{8}$	$43^{5}/_{8}$	19
Lucky Stores	NYSE	$37^{7}/_{8}$	$23^{1}/_{4}$	$25^{3}/_{4}$	21
Prkr Hannfin	NYSE	$30^{1}/_{2}$	$20^{1}/_{4}$	26	13
Pennzoil	NYSE	91	$48^{1}/_{8}$	$66^{3}/_{4}$	65
Pep Boys	NYSE	$48^{1}/_{4}$	$25^{1}/_{8}$	$42^{1}/_{8}$	28
Perry Drugs	NYSE	$20^{7}/_{8}$	12	12	20
Purolator	NYSE	$28^{1}/_{4}$	15	$28^{5}/_{8}$	–
Quaker State	NYSE	30	$22^{1}/_{2}$	25	12
Republic Auto	OTC	$10^{1}/_{4}$	$6^{5}/_{8}$	$8^{1}/_{4}$	–
Rite Aid	NYSE	$35^{1}/_{2}$	$24^{1}/_{4}$	$29^{5}/_{8}$	17
Sealed Power	NYSE	$31^{1}/_{4}$	$23^{1}/_{8}$	$26^{3}/_{8}$	12
Southland	NYSE	$60^{1}/_{2}$	$40^{3}/_{8}$	$47^{1}/_{4}$	11
Stan Mtr Prod	NYSE	$20^{1}/_{8}$	$11^{7}/_{8}$	$19^{1}/_{2}$	18
Supr Ind	AMEX	$16^{3}/_{c}$	9	$12^{3}/_{4}$	9
TBC Corp.	OTC	14	$8^{3}/_{4}$	12	21
Tenneco	NYSE	$43^{1}/_{8}$	$34^{1}/_{2}$	38	18
Trak Auto	OTC	$18^{3}/_{4}$	11	14	350
Triad Systems	OTC	$13^{1}/_{8}$	$8^{1}/_{2}$	$9^{3}/_{8}$	23

A NATION DIVIDES: MARKET REGIONS

Traditional boundaries do not necessarily define market areas. Here is a new way to look at regional markets.

The traditional nine marketing areas that are used by the U.S. Government do not accurately portray the values that make rational areas. Companies that base decisions on these trading areas fail to address how the country really works.

This concept was first advanced by Joel Garreau, in his book *The Nine Nations of North America*, (Boston, 1981, Houghton Mifflin Co.). Recently, it was expanded on by Management Horizons, a consultant firm, which added two to Garreau's areas.

Basically, both agree that traditional boundaries were settled by political bodies, for political purposes, and are not necessarily boundaries of areas that encompass like people.

Therefore, retailers can use accurate maps of real market areas and these should reflect these actual consumer conditions and motivations, and not simply political boundaries.

Using data developed by Garreau, Management Horizons, and the U.S. Government, and adding observations of our own, the *Automotive Marketing* staff has drawn up a new set of marketing areas, by county lines, that more accurately defines the actual market. These are:

Greenbelt East

This is the traditional New England area, tied to the soil, with a strong sense of personal independence, and featuring strong regional loyalties. It's a relatively stable area, with a total population of some 12.6 million, many of whom live in the Boston area.

People *are* DIYers: the 1987 *Automotive Marketing Consumer Automotive Repair Study (CARS)* indicates that 4.6% of U.S. DIYers live here, while only 4.3% of the total U.S. population lives in the area. As well, 5.1% of aftermarket products and service sales are made here.

Even with this there are some DIYer sales problems. People don't work outside much in the area's very cold winters. Moreover, they put fewer miles on their cars than people in the other areas. Garreau noted the inhabitants' "reluctance to travel at all. One man from Dixie who was working for a major Boston corporation marveled at how his colleagues considered Worcester, forty miles to the west, 'the frontier.'"

New Englanders also drive different types of personal vehicles than do inhabitants of other areas. This is also an area exceptionally strong in foreign car registrations. And, it's an area in which light trucks are very common. Average registration of light trucks in the area runs around 20%, while 24.4% of DIYers here told the 1987 *CARS* that they were responsible for maintaining a light truck. As is common in cold weather states, four-wheel-drive light trucks are more popular than they are in hot weather states. R.L. Polk reports that 29.1% of the light trucks in the area are four-wheel-drive trucks, a figure far above the national average.

Megapolis East

What we call "Megapolis East" is a string of largely urban and suburban ("bedroom") counties running from Hartford, CT, to Alexandria, VA. These folks work in some industry, but many more are in service industries and government – white collar jobs – and move about the country more than people elsewhere. With the decline in heavy basic industry, this has become a very stable area in terms of actual population numbers (41.2 million people in 1970 vs. 41.4 million in 1980, for a rise of 0.4%). And National Planning Association figures indicate the New York/New Jersey SMSA will decline 0.03% in population between 1980 and 2000, while Jersey City should have a 0.00% population change in the same period.

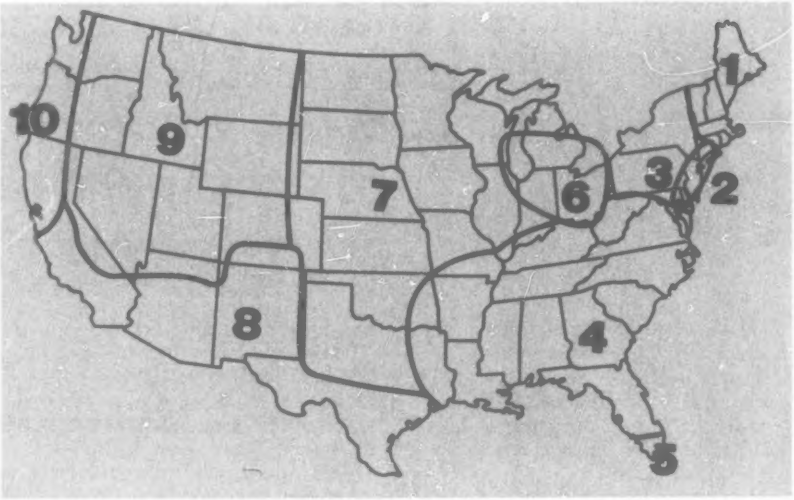
What growth there is is largely among minority group populations – which are often not actually minorities in the area. It is a rare area in Megapolis East that does not have its political leaders from groups which would be considered minorities in an area like Grainbelt Central. For example, Washington's blacks make up 26% of its total population; Baltimore's, 24.9%; Philadelphia's, 19.1%; and New York, 25.1%. Inner city concentrations are even higher: CORE, for example, reports 38% of the population in the Philadelphia area living within city limits is black.

New York is still the major city in this area – the second-best selling newspaper in most of the area is the *New York Times*. Many megapolis inhabitants, especially in more urban areas or in suburban townhouses, don't have the space to work on their own cars or store car parts; hence service is important in this area.

Also, public transportation is strong in the area, and annual car mileage is often less than in other parts of the country. In the District of Columbia, for example, 38% of the population uses public transportation to get to work (compared to a national average of 6.4%), 11.5% walk (compared to a national 5.6%), and only 31.8% drive alone to work (compared to 64.4% nationally).

And, in fact, 38.3% of the

A NATION DIVIDES: MARKET REGIONS



This is how *Automotive Marketing* divides the nation into marketing regions. 1. Greenbelt East, 2. Megapolis East, 3. Smokestack East, 4. Old South, 5. Caribbean South, 6. Smokestack Central, 7. Grainbelt Central, 8. Spanish West, 9. Desert West, 10. Greenbelt West.

households in the District don't even have access to a motor vehicle, compared to 14.7% nationally. Those who do drive, prefer smaller cars (because of parking and fuel economy problems) with front-wheel drive (because of icy road problems), according to a June 1986 article in *Advertising Age*. Cars are often Volkswagens or similar imported type small, front-wheel drive cars.

Even with these figures that may seem discouraging, chains in the Megapolis can do well. Don Schlenger, president of R&S/Strauss Associates, Union, NJ, told *Automotive Marketing* that his stores in the cities are "amazingly profitable. There are strong DIYers in the city. I've seen people pulling the block out of a car right on the street." Statistics like one indicating that 28% of the people in Baltimore consider automotive work an active hobby bear this thought out.

The limited number of gas stations in most of the cities means that categories like motor oil and antifreeze do especially well here. Moreover, Schlenger said, "You have a situation where every supermarket doesn't carry automotive. The supermarkets have less space."

The area's weather does present a unique problem, Schlenger said. "From April to December there's no difference; you sell the same merchandise as the rest of the country. But then there's January, February, and part of March. You don't get a true winter here in the Northeast. It's neither fish nor fowl. So you move only a fair amount of winter merchandise in those months and you don't sell the year'round merchandise either."

According to *CARS* data, 9.0% of the U.S. population who live here does their own automotive repairs and maintenance. This compares favorably to the fact that 7.0% of the U.S. population who live here are responsible for maintaining some sort of vehicle.

Smokestack East

The eastern industrialized area portrayed in the film *The Deer Hunter*, "Smokestack East" is somewhat of a decaying area as the major manufacturing industries fade and people move out. Even with the overall rise in the population of 11.1% over the decade between 1970 and 1980, this area's population rose only from 12.9 million to 13.0 million—only 0.3%. And the National Planning Association projects that of its five slowest growing SMSAs, three are in this area—Binghamton, NY/PA; Elmira, NY; and Utica-Rome, NY.

It's not surprising, therefore, to find that 41.0%, according to the 1978 *CARS*, of DIYers here are more than 45 years old, compared to 40.8% nationally.

Smokestack East's industrialized mid-size towns sit on rolling hills—an important geographic shaping factor. People here are union-oriented. Cold winters affect DIY sales, but this is a heavily DIY-oriented area.

Old South

Largely the old 13-state Confederacy, the values of the Old South, however, also are strongly felt in some areas of some traditionally northern states, such as Maryland, Illinois, Indiana, Delaware, and Missouri.

It's a booming area, as new industries and people move here, largely at the expense of the smokestack area. Population grew 15.9% between 1970 and 1980—from 28.7 million to 33.3 million. Interestingly, half of the workers in the U.S. who work for companies which are largely foreign owned, live here. This is where the new, overseas money is coming. One reason is that unions are not strong in this area.

Cars in the Old South are still traditional, large American ones, and the car is still an important symbol here. Cars here don't rust due to salt on the roads, and people take good care of them. Relatively mild winters help DIY sales. And DIY sales can be above average in the area—as much as 36% of all automotive repair work done in Orlando, FL, for example, is done by DIYers.

So, it's no surprise that people here are DIYers. Where 22.1% of the car owners here are responsible for the vehicle maintenance, 28.1%—a statistically significant 6% jump—claim to do their own DIY work on their cars, accord-

A NATION DIVIDES: MARKET REGIONS

DIYERS BY REGION

With the national average being 100, percentages of DIYers who are occasional (an hour or less DIY work monthly), average (1-5 hours monthly), or serious (more than five hours monthly) can be indicated regionally through indexing. Hence, for example, the fact that Greenbelt East indexes 167 in occasional DIYers and numbers below 100 in the other two categories shows that DIYers in that area tend to do less automotive DIY work than DIYers nationally.

	Greenbelt East	Megapolis North	Smokestack East	Old South	Caribbean South	Smokestack Central	Grainbelt Central	Desert West	Spanish West	Greenbelt West
Occasional	167	64	89	78	156	133	106	71	58	161
Average	85	109	111	104	101	80	101	111	99	79
Serious	78	86	76	99	42	104	98	99	141	87

Source: *Automotive Marketing's 1987 Consumer Automotive Repair Study*

ing to the 1987 *CARS*.

Caribbean South

Miami, the major urban center of this geographically small area is not traditional Old South. Its value systems are very different from those of Atlanta. It has a heavy influx of northern retirees; but it also has a very, very large Cuban population. Much of the population is recently arrived. The fasting growing area, its population grew 47.2% between 1970 and 1980, from 5.2 million to 7.7 million.

And, its large older population has caused full-size car sales to be better than average in this area, according to a June 1986 article in *Advertising Age*. How much of an older population? Well, 32.3% of the Miami-Hialeah area population is over 50 years old; 39.6% of those in Fort Lauderdale are over 50, as are 38.9% of those in Naples, and 42.9% of those in Fort Myers-Cape Coral. These make, therefore, for poor DIY areas.

However, for those who do their own work, good weather year around means good DIY, shade-tree mechanic sales. The 1987 *CARS* data indicates that 1.2% of all DIYers both live here and do some sort of automotive repairs and maintenance.

Smokestack Central

Garreau put this area and that one we call Smokestack East into one area he called the Foundry. Management Horizons split them apart, and we agree. The inhabitants of this area are affected by their flat country and only several-generations away pioneer attitude. Chicago is its main urban center. Unions are strong in this area. One result is that workers' compensation rates in the area are among the highest in the nation.

As its eastern cousin, the area has grown little, in terms of population, indicating more movement out of than into the area. Population growth between 1970 and 1980 was 2.1%, from 33.7 million to 34.5 million. With the decline in basic industries, this area, obviously has suffered.

In fact, AmeriTrust Corp., Cleveland, calling this area "MidAmerica," has said it will take an additional $20 billion a year in investments, made each year for the next 15 years, to prevent its decline to second-class status and to "achieve the region's potential as the nation's 'New Industrial Frontier.'" Actually, there is little evidence that this sort of funding will be forthcoming. The company says the area's problems are caused by workers' compensation rates, state tax policies, environmental regulations, and high health care costs.

Despite the poor general area economic indicators, at least one chain, Perry Drugs' Auto Works division, feels this is a perfect area for an aftermarket retailer. According to the company's statistics, while 23% of the nation's population live roughly in this area, 25% of the nation's blue-collar workers and 25% of the nation's cars are registered in it. And, there is almost as high a percentage of young males in the area—indicating a prime number of individuals who fit the traditional DIY profile. The result is that they say they are committed to staying in the area, even with their major future growth plans.

It is, therefore, not surprising to find that while 9.4% of the U.S. population who live here are responsible for maintaining some sort of vehicle, a larger precentage (11.9%) actually do their own DIY work.

Grainbelt Central

Farming communities and vast distances and similar types of people in terms of race and religion give this area its unique feeling. Only 1% of the population in Minnesota is black; 1.4% of Iowa is black; the percentage in South Dakota is even lower.

Yet, the area's inhabitants don't have long lines of ancestors who lived here. According to the 1880 census, 44% of Nebraska's inhabitants had parents born overseas; 66% of those from the Dakotas were of foreign parentage; 71% of Minnesota's were; and as much as 73% of Wisconsin's were. Most of these people, too, were northern European.

Today the area is growing faster, in terms of population, than the rest of the country. Where the country grew 11.1% from 1970 to 1980, this area went from 3.0 million to 3.8 million—small sounding, but actually a 26.4% growth. And DIYers don't fit in in the very cold winter weather in much of the area (even north Texas can be colder than one might think.)

Cars are important here; partly because of the long distances and many miles the people put on them, partly for other reasons. According to Garreau, "In Minnesota you can still find automobiles to be a sectarian issue. One denomination drives Fords and another drives Chevrolets, be-

A NATION DIVIDES: MARKET REGIONS

VEHICLE TYPES BY REGION

With the national average being 100, percentages of DIYers who own more or less than the national average of the following types of vehicles are indicated through indexing. Hence, for example, the fact that car ownership indexes at 72 in Greenbelt West, while light truck ownership indexes at 131 indicates that DIYers there tend to own trucks over cars.

	Greenbelt East	Megapolis North	Smokestack East	Old South	Caribbean South	Smokestack Central	Grainbelt Central	Desert West	Spanish West	Greenbelt West
Cars	108	101	107	106	106	105	108	86	99	72
Light Trucks	74	41	67	123	51	52	100	215	113	131
Vans	133	57	90	112	167	111	107	98	67	57

Source: *Automotive Marketing's 1987 Consumer Automotive Repair Study*

cause one wouldn't dream of buying a car from an infidel."

Given all the farmers here, who typically do their own maintenance and repair work, it is not surprising that 16.2% of the U.S. population both live here and do their own automotive DIY work, according to *CARS* data. This compares to the fact that only 12.7% of the U.S. population who live here are responsible for maintaining some sort of vehicle.

Spanish West

The area we call Spanish West takes in a large part of California and runs east to Houston. More than 31 million people live in it—15% of the population of the United States. About a quarter of these people—almost 4% of the entire country's populations—live in Los Angeles.

As the name suggests, lots of people of Hispanic origin live there. In fact, of the top 50 Hispanic-origin-populated areas in the entire U.S., picked by sheer numbers rather than population percentages, 25 are in Spanish West. Every county isn't like Webb County, TX, which is 95% peopled by those of Hispanic origins, but there are many Spanish accents in just about every county in this area.

Cars also have a different look about them. Foreign car registrations here are significantly above those nationally. In Spanish West, 24% of DIYers bought some automotive product exclusively for a foreign car, while another 14% maintained both a domestic-built and foreign car. Nationally, only 11% of DIYers bought for a foreign car, while 13% bought for both types.

And, Spanish West DIYers aren't apprehensive about working on their foreign cars. Of them, 64% said the fact it was foreign didn't stop them from working on it. Nationally only 53% agreed.

It's obvious that Spanish West retailers recognize this. As Lester C. Walters, Midnite Auto Supply, Hayward, CA, told us, "The import market is no longer a 'specialty market'." While many DIYers elsewhere in the nation shop for foreign car parts and accessories at a different place than where they would shop for domestic car parts, in Spanish West 67% of the DIYers shop the same place for both.

Oddly enough, however, Spanish West's DIY percentage isn't equal to the population percentage. According to our *CARS* survey, only 9% of the nation's DIY population lives in Spanish West. One reason is the many older people living here: 26% of both Phoenix's and Tucson's populations and 24% of Los Angeles' population are 50 years old or older. They don't do DIY work as much as younger drivers.

Of DIYers here, 61.8% are between the ages of 25 and 44—a considerably larger percentage than the 46% of DIYers nationally who fall into that age bracket. However, while 40.8% of DIYers nationally are older than 44, in Spanish West only 21.4% falls into that age range, according to the 1987 *CARS*.

But, DIY is still strong in the area. In a large part, this is because people live in sprawling urban centers. People have to drive, and therefore own—and maintain—cars in astonishing numbers. "We are rapidly becoming one City of Southern California, a city 250 miles long and 50 miles wide with more than 15 million drivers by the year 2000," David D. Grayson of the Automobile Club of Southern California recently told the *Los Angeles Times*.

It's not just the miles that make DIYers, however. Most Spanish West DIYers do their own automotive DIY work because they enjoy it or find satisfaction in the work and because they have confidence in their own skills. Those DIYers put in much longer hours on DIY than is typical of DIYers nationally.

Otherwise, Spanish West DIYers are similar to DIYers nationally. They are generally the same age. Their incomes are just about the same. They do tend to be a bit better educated than the national average, with 57% having at least attended some college compared to 48% of DIYers nationally.

Retailers have recognized these trends and have profited from them. The result has been that the area supports some of the country's largest chains—chains like Pep Boys and Chief Auto. A representative of a four-store chain, Jay's Da-Nite Auto Supply, Tucson, AZ, told us, "The big and the swift will prosper. The *rate* of change in the automotive aftermarket will continue to increase. The market will continue to segmentize and specialize." Smaller chains have survived by emphasizing what's unique in the Spanish West market.

The message is clear--retailing in Spanish West means catering to that unique market, with its many foreign cars and hobbyist DIYers.

Desert West

Folks in Desert West often have to drive 50 miles to shop or to work. The area's few potential customers are spread out over a wide area. In all, 10.7 million people (5% of the U.S population) live in an area of roughly 750,000 square miles (about 25% of the continental U.S.). However, 2.4 million (22.4% of the Desert West's total population) of those people are clustered in seven counties around Denver and 1.3 million (12.1%) in four counties around Salt Lake City. That leaves seven million people in roughly 725,000 square miles. As a result, many area retailers' trading areas comprise whole counties, not single zip codes.

Although Western immigration has slowed recently, the Desert West grew rapidly through the 1970s. For example, the seven-county Front Range area of Colorado had 56,000 people a year immigrating in the 1980s, and towns like Rock Springs, WY, and Craig, CO, doubled in size then.

Another retailing consideration is that Desert West is a light truck, van, and recreational vehicle salesman's paradise. In all, 47% of Wyoming households, 44% of Idaho households, and 43% of Montana households own a truck or van. In fact, all the Desert West states were well above the national average of 23% for truck or van ownership.

Although the actual numbers of trucks aren't as dramatic, a goodly percentage of Desert West DIYers work on a truck or van, so retailers had better stock more than just a few items in this category. Many of these trucks are used on the job, but many are also daily driving RVs.

Five percent of the *CARS* survey DIYers live in Desert West. They are mostly male (79%) — the highest percentage of any region in the U.S. Otherwise they are reasonably similar to DIYers nationally, except for income. Some 17% — almost twice the national average — had household incomes over $50,000, while only 29% (versus a national average of 34%) had household incomes under $20,000. The oil price decline may change this.

Although the Desert West does not quite match either the Greenbelt West or the Spanish West for imported car ownership, foreign cars are still important for Desert West retailers, especially imported light trucks. About 19% of DIYers bought parts or accessories for imported cars exclusively, and another 17% bought for both a domestic and an imported car. Both these numbers are well above the national average for DIYers, indicating a strong need for area retailers to stock foreign car parts.

But, it looks as though retailers are not doing a good job in the Desert West when it comes to imported cars. Over half (53%) of the DIYers shopping for parts for these cars say they go to a different outlet for parts for imports than they do for domestic cars.

Greenbelt West

The part of the county we call Greenbelt West is a narrow strip of land bordered by mountains to the east and the Pacific Ocean to the west running from San Francisco in the south up to Seattle and the Canadian border.

Crowded into this belt are 11.2 million people — about 4.4% of the population of the country. Greenbelt West gained roughly half a million people between 1980 and 1984 for a growth rate of 4.5%, according to the Bureau of the Census. About 60% of these people live in the three major Greenbelt West metropolitan areas: Seattle/Tacoma (2.2 million people); Portland (1.1 million people); and San Francisco (3.4 million people). But the highest growth areas were in Northern California.

Because the Cascade and Sierra Nevada mountains catch the moisture coming in off the Pacific, Greenbelt West enjoys mild, rainy weather. So, while car care products sell well in Greenbelt West, a DIYer who plans to work on his car on the weekend may be rained out.

The area-wide DIY percentage is the same as the area-wide population percentage. In fact, only 3.6% of the U.S. population both live here and do their own automotive maintenance and repair work, according to the 1987 *CARS* data. Nevertheless, at least two successful major chains do most of their business in Greenbelt West — Schuck's, (in the Seattle area) and Grand (in Oakland).

Chains should be stressing imported car parts. In each of Greenbelt West's metropolitan areas, imports account for 50% or more of new car registrations. In Greenbelt West, 30% of DIYers bought some automotive product exclusively for a foreign car, almost triple the 11% national average for DIYers. In addition, another 19% purchased products for both a domestic and a foreign car — well above the national 13% average.

The importance of imported cars in Greenbelt West is underlined by the owner of a Western Auto in Silverton, OR, who told us, "Aftermarket people are not accepting the fact that foreign cars are here to stay, and they'd better do a better job of supplying parts and accessories that will fit these cars."

Strangely enough, despite the proportion of the area's imported cars, 56% of DIYers were apprehensive about repairing a foreign car. But stores in Greenbelt West must do a good job of satisfying DIYers since only 23% shop in different outlets for imported car parts and accessories than they do for domestic cars.

Of course, there are marketing areas within marketing areas. One markets in Manhattan differently than the Bronx — and, within Manhattan, markets differently in Harlem than on the lower East Side. Yet, a general mindset can be found in each major, or "mega-marketing area," that defines that area as being very different from other areas. And retailing chains that fit into that mindset do well, while others don't necessarily have the same success. ■

The 1987 DIYer is a male who is better educated, and makes more money. Here's what products he buys.

Here's the story in a nutshell: in 1984, 71% of the country's population did some sort of DIY work on their vehicles; in 1987 this percentage had grown to 79%. However, the most popular product categories seem to be slipping in sales penetration.

There are a more significant changes in the DIY market, too, that are revealed by comparing our 1984 *Consumer Automotive Repair Study* with our 1987 *Consumer Automotive Repair Study.* There are now 9% more women DIYers then there were three years ago. The number of college graduates jumped 6%, while those DIYers who failed to graduate high school fell 5%. There are 18% less DIYers who are younger than 24-years-old, while there are 9% more DIYers in the 25-44 year old age bracket. There are 12% less DIYers who make less than $20,000 annually, while 9% more make more than $40,000 a year. Now, 4% more hold white collar jobs, while the number holding blue collar jobs fell 6%. DIYers own more cars, too, with 5% more owning two or more cars in 1987 than did in 1984.

And, the average DIYer owns a domestic nameplate vehicle—overwhelmingly one made by General Motors Corp.

The picture, therefore, of 1987's DIYer is one of a male (although the number of women is constantly growing strongly), who is better educated and makes more money than before, holds a white collar rather than a blue collar job, is responsible for more vehicles than before, but still drives his "Chevy to the levie."

Interestingly, 22.8% of DIYers we surveyed indicated that they were responsible for maintaining a vehicle that they didn't own.

The Serious DIYer

In all, 19.7% of the DIYers we surveyed did notably more work on their cars than the average (57.6% put in 5 hours or less monthly). This number has fallen slightly from the 21% who did this much of their own work monthly in 1984. But this is still the best customer group an automotive parts and accessories retailer can have. Because, this group of less than 20% of all the DIYers out there buy 42.8% of all the headlights, 47.6% of all the custom wheels and wheel covers, 48.7% of all the struts, 35.8% of all the car sound equipment, 42.1% of all the starter motors, 40.7% of all the water pumps, and 40% of all the seat covers sold over the course of a year.

So, it's not surprising that they are big auto store shoppers. In all, 60.0% of these heavy DIYers visited an automotive parts store at least once a week during the course of a year, while only 40% of those who did an average or less amount of vehicle maintenance work themselves visited an auto store as often.

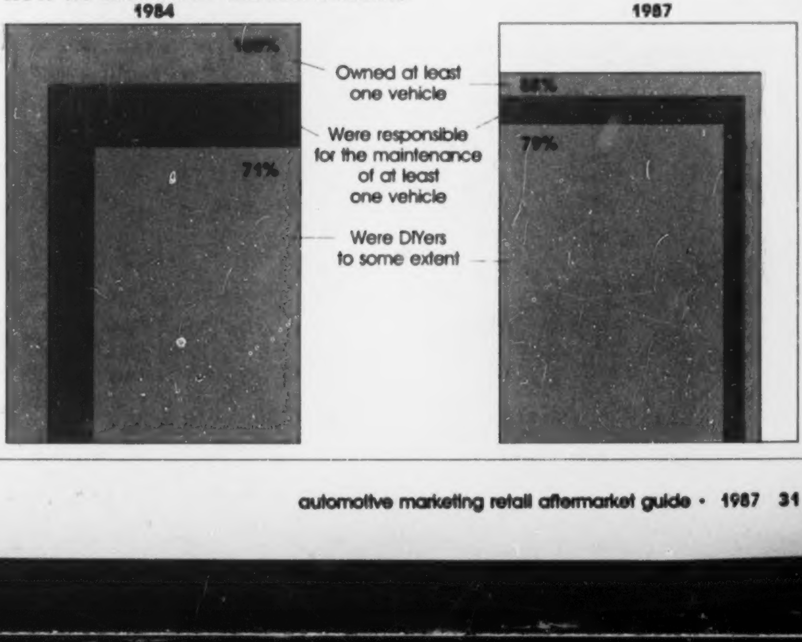
This group is largely male: In all, 24.9% of male DIYers and 9.7% of female DIYers fall into it. Serious DIYers maintain more vehicles than usual; 32.3% maintaining three or more vehicles, compared to 17.1% with two and 15.5% with one. Among those making between $20,000 and $30,000 annually, 24.5% of the DIYers are these serious DIYers.

Slightly more owners of light trucks and vans are, by the way, serious DIYers than are car owners.

The DIYer's Vehicles

The tremendous sales increases of foreign nameplate cars in the U.S. hasn't affected the DIY market nearly as much as it has the new car market. Where 25.6% of new cars registered in the U.S. were imports, only 20.8% of DIYers drive a car with a foreign nameplate. In all, 42.5% of all DIYers own Chevrolets, while 33.7% own Fords, 12.3% own Oldsmobiles, and 9.7% own Pontiacs (totals equal more than 100% because of multiple vehicle ownership). By way of contrast, the most popular for-

HOW WE SEGMENTED THE RESPONDENTS



LOOKING AT TODAY'S CONSUMER

eign nameplate car among DIYers is the Toyota, and only 9.1% of DIYers own one model or another of this Japanese car.

Obviously, the *average* foreign car owner is generally less willing to work on his than domestic nameplate owner or still is covered by the original warranty.

However, 30.4% of Chevrolet owners are serious DIYers, while 13.5% of Toyota owners fall into this category. In the same way, 20.9% of Ford owners are serious DIYers, compared to the 33.7% of DIYers owning a Ford. However, the second most popular imported car among DIYers is the Volkswagen, with 6.5% of all DIYers owning one of these vehicles. But 18.7% of Volkswagen owners are serious DIYers.

The implication is that, while DIYers generally prefer American cars, those who own foreign ones are more apt to be those important, serious DIYer customers.

Age is another important factor in determining if someone responsible for maintaining a vehicle does it himself or takes it for professional service. In all, 52.2% of DIYers own 1977 or earlier car models. And, people who own cars this old, own more than one vehicle. For example, 80.5% of those admitting to 1975 or earlier car models own two or more other vehicles. Another 42.0% own 1977 or 1976 vehicle models (again, totals equal more than 100% due to multiple vehicle ownership).

And, the type of vehicle also plays some part in determining what sort of work the maintainer does on it. Only 21.3% of car owners are serious DIYers, while 30.2% of light truck owners and 23.5% of van owners fit into the same category.

The bottom line? The successful retail chain still emphasizes parts and accessories for older American vehicles, but also offers parts for major jobs for the leading import nameplates.

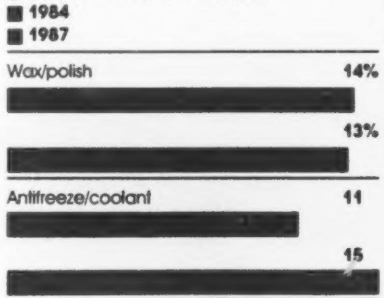
What They Buy

While there were some significant changes over the past three years in the basic profile of the DIYer, what DIYers actually bought has changed little. In 1984 the top five products were, in order, oil, oil filters, antifreeze/coolant, air filters, and spark plugs. In 1987 the top five products are oil, oil fiters, antifreeze/coolant, air filters, and wax and polish products. Spark plugs traded places with wax and polish products, to fall to the number six slot in 1987.

What had changed, slightly

PURCHASES AT NON-TRADITIONAL OUTLETS

Three years ago we found that non-traditional outlets such as drugstores, hardware stores, supermarkets, and convenience stores had not yet made serious inroads into the automotive products business, at least as far as DIYers were concerned. They don't seem to have gained ground over the past three years.



RESPONDENT DEMOGRAPHICS (AMONG ALL DIYers)

What was the sex of the DIYer respondents?

	1984	1987
Male	74%	65%
Female	26	35

What was the marital status of the DIYer respondents?

	1984	1987
Married	64%	62%
Divorced/Separated	12	12
Widowed	4	5
Never married	19	21
No answer	1	0

How well educated were the DIYer respondents?

	1984	1987
Less than high school grad	14%	9%
High school grad	40	39
Some college	24	24

How old were the DIYer respondents?

	1984	1987
Under 18	1%	*
18-24	29	12
25-34	18	25
35-44	18	22
45-54	12	12
55-65	14	13
Over 65	9	17

How much do the DIYer respondents make per year (household income)?

	1984	1987
Under $10K	13%	8%
$10K-20K	28	21
$20K-30K	14	21
$30K-40K	14	15
$40K-50K	6	8
Over $50K	6	13
No answer	19	14

What do the DIYers do for a living?

	1984	1987
Professional/Tech	16%	20%
Managers/Admin	11	10
Sales	4	5
Clerical	6	9
Craftsmen	17	14
Operators	5	6
Transport Operatives	5	4
Laborers	2	2
Farmers	2	1
Service Workers	7	4
Armed Forces	2	*
Housewives	5	8
Students	3	3
Retired	12	12
Unemployed	3	2

How many vehicles were the DIYer respondents responsible for?

	1984	1987
1	48%	43%
2	35	37
3	11	13
4+	6	7

Where do the DIYer respondents live?

	1984	1987
House	74%	76%
Apartment	17	17
Mobile home	7	7

Do the DIYer respondents rent or own?

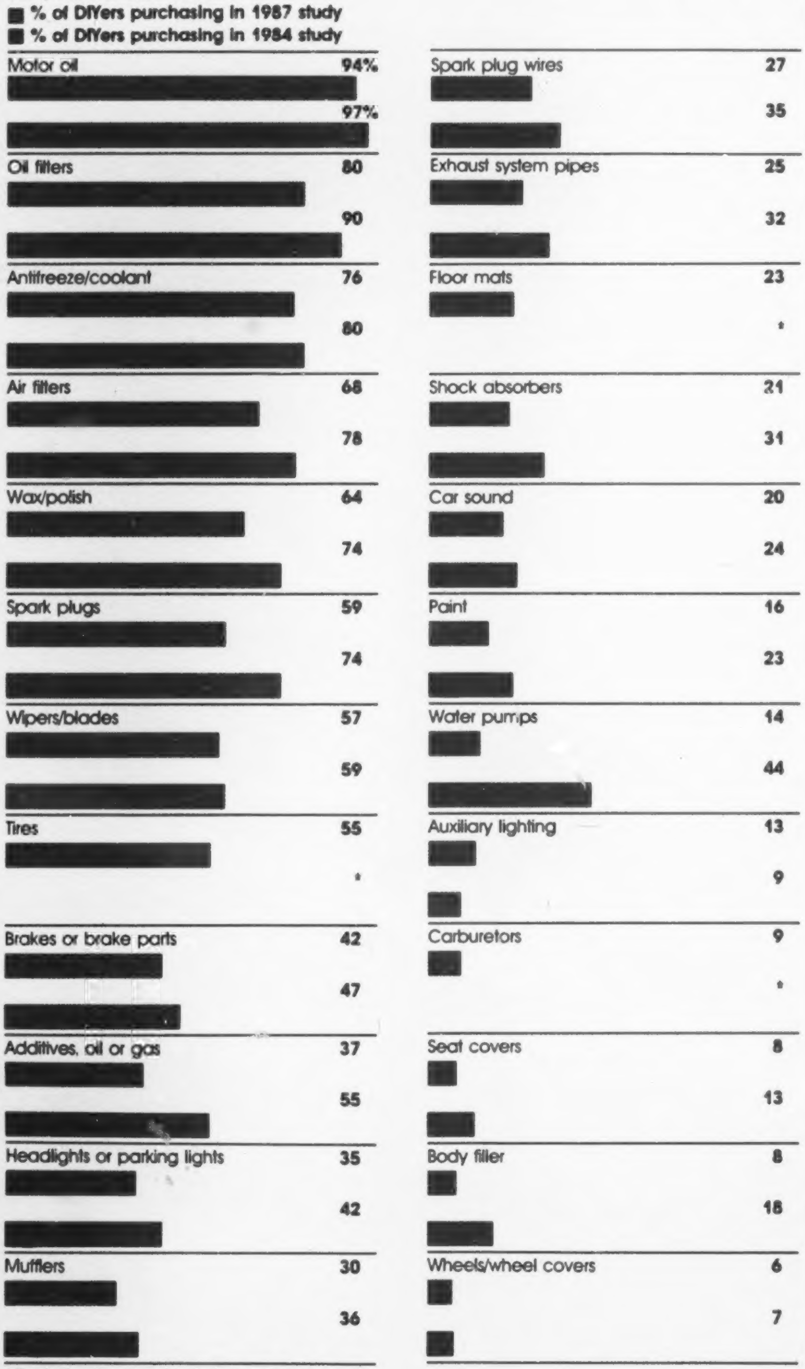
	1984	1987
Own	71%	68%
Rent	27	30

* Indicates a percentage too small for accurate measurement.

LOOKING AT TODAY'S CONSUMER

ITEMS PURCHASED

We asked DIYers what products they bought over the year prior to our study. Motor oil was the most popular item, but traditionally slow-moving hard parts finished higher than expected when compared to other accessories.



* Product category not included in 1984 study

WHY YOU SHOULD ENCOURAGE DIYERS

In 1984 we found that 25% of serious DIYers stopped in an auto store on a weekly basis. Obviously, since then weekly visits to auto stores among all sorts of DIYers has fallen off, but more people are visiting auto stores than ever.

Percentage that had shopped in an auto store weekly

	1984	1987
Serious DIYers	25%	18%
Study average	7	2
Occasional DIYers	3	0

Percentage that never shopped in an auto store

	1984	1987
Serious DIYers	3	0
Study average	7	3
Occasional DIYers	16	8

but perceptibly, was the percentage of DIYers buying these items. Where 97% of all DIYers bought oil in 1984, this year it was 93.5%. Where 90% bought oil filters in 1984, the number dropped to 80% in 1987. Antifreeze/coolant buyers fell 4% over the three years; air filter buyers and wax and polish product buyers fell 10% each.

This trend holds with serious DIYers, too, although on a lesser scale. For example, 28% of serious DIYers bought antifreeze/coolant in 1984, compared to 26.7% who bought it in 1987. Serious DIYers made up 25% of the oil-buying DIY public in 1984; they made up 23.9% of that same group in 1987. This trend, too, holds even with products that DIYers tend to buy less of over a 12-month period. For example, 76% of DIYers who bought batteries in 1984 were serious DIYers; only 28.3% of battery-buying DIYers in 1987 were serious DIYers.

So, to fill the needs of the increased number of DIYers, retailers have to make sure to maintain full product lines. Those who do, and aim their merchandising at the DIYers in their area, should get the advantage of the growing DIY market. ■

MARKETING BY LIFESTYLE

Your market is made up of all sorts of people. Knowing their lifestyles makes you a better retailer.

By employing two key concepts—marketing segmentation and lifestyle marketing—aftermarket retailers can gain more bang from each promotional buck whether they operate a single retail outlet or a chain of hundreds of stores.

The first challenge is to segment the market. "If you're not thinking segmentation, then you're not thinking," writes one leading marketing expert, Theodore Levitt, in his latest book *Marketing Imagination*. Indeed, the marketing challenge for the rest of the 1980s is to target promotional expenditures to reach precisely the consumer segments that will result in future sales.

No Typical Customer

No retailer survives by serving some mythical "typical" customer. In fact, segments that vary from the national DIY aftermarket customer stereotype may offer powerful sales potential. Some examples include:

- **Segmentation by sex.**

Recent years have witnessed a dramatic increase in the number of women in the labor force—some 55% of all women work at jobs outside the home. New found economic clout translates directly into automotive purchasing power and in 1985 40% of all new cards were sold to women (up from 23% only 15 years ago). *Automotive Marketing's Consumer Automotive Repair Study* reports that better than one of every four DIYers is a woman, and in many urban markets and college towns, women may represent a much higher potential market.

- **Segmentation by ethnicity.**

Our nation's 18 million Hispanics represent another major "non-traditional" DIY segment. Hispanics are America's second fastest growing major ethnic segment (Asian-Americans are first), increasing at a rate five times that of the general U.S. population. While over 50% of the nation's Hispanics live in Texas or California (*Automotive Marketing's* Spanish West), nearly every major urban area has a rapidly growing Hispanic population. The New York area has 2.5 million Hispanics and Chicago, 750,000. These numbers represent substantial buying power.

- **Segmentation by age.**

The late teens and early 20s are a crucial phase in the consumer's development because retail affiliations that may last a lifetime are being developed in those years. The youth market represents a major conquest market for the DIY retailer. One way to reach this segment is through education. Students drive cars—55% of all college students own cars and another 25% have access to cars. In personal-transportation-dependent regions (such as the Southwest and West) student car ownership on some commuter campuses exceeds 90%. The "starving student" stereotype simply no longer fits today's 12.6 million college students. Some 57% of students have jobs that pay $2,000 or more annually (and a surprising 22% earn $5,000 or more annually). Moreover, 56% of college students come from families with annual incomes of $30,000 or more, and nearly one of every three college students comes from a family with annual income of $50,000 or more. National studies indicate that one in five DIYers is under 25, and most certainly the college (and high school) consumer segment is a viable potential segmented marketing target.

- **Segmentation by vehicle type owned.**

Approximately 40 million of the nations's 152 million registered vehicles are light trucks, vans, or off road vehicles. In 1985 alone, new light truck sales reached 3.6 million units, a 36.3% increase over the 1984 sales levels. One study found that the average life expectancy of light trucks is 14.5 years, compared to domestic passenger cars' 9.9. years. It is no secret that light trucks have proved to be a bonanza for the aftermarket industry.

One way to thrive in such an intensely competitive environment is to carefully delineate all sub segments of the light truck market. In general, light trucks are the "transportation toy" of baby boomer boys. The national profile of the light truck owner is male, 34 years old, college educated, with a hefty annual income of $34,000. Here again no retailer survives by serving national stereotypes. In Southern California, persons of Spanish surname account for one in five new light trucks sold, and probably an even greater percentage of used light truck ownership.

Targets Are Apparent

By segmenting the market, targets areas become apparent. The other side of the equation is how to reach targeted consumer groups with maximum impact at minimum cost.

Mass media advertising offers one alternative, and selectively employed, it may hold value for even the single store retail aftermarket outlet. For the larger chains, "media mix" advertising is a regular fixture, popular because it is both proven and just plain convenient. Yet mass media has its drawbacks. You pay to reach non-customers and may miss some segments you may need most.

Direct mail (such as newsletters or "loss leader" specials mailed to your existing customers or targeted households) offers a far more selective method of reaching segments and is used by chains as a major sales tool. Here again the problem is "clutter"—the average American household receives 598 pieces of mail each year.

Hit The Targets

One effective and creative means to narrow the allocation of promotional resources to reach targeted segments is lifestyle marketing. Each market segment has certain "points of commonality," shared traits of lifestyle. These may include interest in sports, recreational events, even the simple pursuit of becoming more knowledgeable about fixing one's car. For the innovative aftermarket retailer, these lifestyle commonalities may offer cost effective "platforms" for promotional endeavors at local and regional levels.

Here's an example of how this works. A southern California beach city, financially strapped as many local governments are, needed vehicles for its shoreline lifeguard crew. A local import dealer jumped at the opportunity by providing FWD mini-trucks at well below market cost with provision that the dealer's name be displayed on the vehicles. The dealer received:

- **Exclusive exposure.**

The dealer earned exclusive exposure (no other vehicles are allowed on the beach) before a segment—California youth—that attends the beach in the hundreds of thousands all summer long, a segment very difficult to economically access through media, and a principal buyer of mini-trucks.

- **Vehicle demonstration.**

The dealer demonstrated the "off-road" performance of his vehicle, no easy task in the heart of a major metropolitan area.

- **Endorsement.**

The dealer and truck earned "third party endorsement" from the city's official lifeguard crew—stylish, and highly respectable image enhancers.

How To Start

What steps are necessary to implement lifestyle marketing programs? The first step is to tap your knowledge of the local community or region in which you operate. Know the customers' lifestyles—not just his or her buying behavior while strolling through the store—but every aspect of the customer's 24 hour-a-day lifestyle. With a strong knowledge base, "lifestyle marketing" can evolve.

Common denominators can be found among specific market segments—positive activities and values that include recreation, family, ethnic pride, concern for car safety and interest in learning car repair techniques, cultural events, and prominent local or regional sports and other personalities. Each of these lifestyle factors offers a potential "platform" for the delivery of grassroots marketing techniques. In short, become sensitized to the lifestyle needs of your constituents.

The next step is programming. Be bold, aggressive, and innovative. Anyone can pick up the phone and place advertising in the newspaper or on the radio and your competitors do it daily. Pick up a blank sheet of paper instead and start listing market segments, their concerns, and how you might reach them.

While women represent 35% of DIYers, studies show they have less confidence in their ability to do DIY work: nearly half feel they "can do almost no jobs" while only 11.6% of all men felt that way. Carve out an "education center" display in your store, with how-to manuals and other consumer-oriented literature. If local colleges teach car repair classes, post that information. The point is not how many customers attend the classes, the point is that every customer who enters your store is aware of your efforts to assist the DIYer, including every female customer.

To reach Hispanics go to Hispanics. Be a partial sponsor of local festivals, get signage at charreadeas (Mexican rodeo troupes that tour the U.S. annually), call the Catholic Church and see if you can get high visibility involvement in some local Church-operated charity, sponsor the local adult soccer league if it is predominantly Hispanic. Be creative. Let Hispanics know, one-on-one, that you want their business.

To reach students, go to students. Buy space in the school paper, hire the football team quarterback or coach as your local media spokesperson, grant 10% student discounts on oil and filters, sponsor a pep rally, hold a contest, sponsor a scholarship, do whatever you think will, on a grassroots level, let the student know you want his or her business.

Remember, a broad-based media-driven "shot gun" approach to marketing is loud and convenient. But you may be wasting expensive ammunition. Tailor your marketing not to reach everybody, but to reach only potential buyer consumer segments. In formulating marketing strategy, continually ask yourself these three questions:

- **What are the lifestyles of my potential buyers?**
- **Am I paying to reach nonqualified buyers?**
- **Are my marketing efforts missing key consumer segments?**

A final step in formulating a lifestyle-oriented marketing plan involves sensitivity. It is amazing how much time and energy retailers spend on preventing employee pilferage of stock, yet are apathetic toward the "pilferage" of new customers forever lost due to arrogant and insensitive behavior by sales personnel. Your staff must understand that it is often downright intimidating for women, Hispanics, even younger customers including students, to enter many retail establishments. The effort on your part must be extraordinary. Your competitors are working on the problem—can you afford to be unwilling or unable to adjust to the changing dynamics of the marketplace? ■

Stocking the most wanted brands and advertising highly competitive prices builds traffic and dollars in your store.

There is a plethora of merchandise an aftermarket retailer *can* stock and markets he can address. But he has to know what product lines are moving best, what the latest trends are, and what his customers will buy. Armed with this knowledge, the retailer can make intelligent buying decisions.

Successful retailers, therefore, have entered markets that they had previously ignored. Steve Cantley, Nationwise Auto Parts, Lake Park, FL, for example, notes he gets more and more customer requests in the specialty line. "These areas are of interest to South Florida drivers," he comments. "These markets could easily become a strong 40-50% of the retail aftermarket due to customer demand. People like to 'individualize' their machines."

But, specific product knowledge is also vital to sales. John Hutchinson, Automotive Parts World, Louisville, KY, thinks this is the most important part in selling. "We try to be knowledgeable in these lines and help the customer," he notes.

Given product knowledge and proper stock mix, the volume retailer can do well in any area. It's worth doing.

Motor Oil, Chemicals

The basic approach to retailing motor oil and chemicals emphasizes selection, price, and promotion. Stocking the most wanted brands and types of products and advertising highly competitive prices build store traffic and total sales dollars. If this approach results in below average profit margins and profit dollars for oil and chemicals—well, the hope is that the increased traffic will result in more profitable sales of other items. The main thing is to keep customer away from a competitor for oil, antifreeze, car wax, or specialty chemicals.

This approach is used by most retailers. However, there is a change: volume is still important, but there is more emphasis on increasing profits and margins on oil and chemicals.

Selection is still an important aspect of oil and chemical merchandising because consumers want choices. But the stores are more *selective* about their selections: they weed out losers and secondary brands.

One buyer put it simply, "We have to stock chrome polish but we don't have to stock five brands of chrome polish!" Another suggested stocking too many choices may actually hurt sales: "We've given the car owner so many choices on some items that he gets confused and walks out without buying any."

The trend toward greater selectivity benefits the market leaders in each category.

However, an interesting countertrend lets stores push one or more secondary brands (or a private brand) in each category because of excessive discounting on the leading brands.

A good example is the antifreeze/coolant category where one brand far outdistances the pack in the race for share of market (SOM). Precisely because it is the best known brand—and perceived as a potent traffic builder—many retailers sell it at close to their cost—and, not infrequently, *below* their cost.

Many retailers accept this situation as a business reality—but some have decided to promote other brands with better margins in search of higher profits.

Selectivity also applies in the appearance chemical category. Old-time favorites continue to sell well, but retailers have weeded their inventories of me-too types of super-premium polys, spray waxes, and fast waxes. However, manufacturers continue to introduce new types of appearance products.

In the additives category, there are also new products. Because the federal government requires petroleum refiners to phase out leaded gasoline, there is growing interest in marketing additives which provide the valve seat protection and octane boost of lead. Several brands of lead substitute additives—plus one additive containing real lead—have been introduced. There is also a new market for fuel injector cleaners.

There are differences in marketing in each chemical product category. Specifically, the different categories and their problems are:

Motor Oil

Oil men agree that the retail motor oil market (consumption by passenger cars and light trucks) is about 600 million gallons per year. Estimates of the DIY segment start at 55-60%, although some companies put it as high as 70%.

Quaker State Oil Co., Oil City, PA, and Pennzoil Products Co., Houston, TX, have the leading national brands. Companies like Valvoline Oil Co., Lexington, KY, and Kendall Refining Co., Bradford, PA, are important in the market because of their Midwestern strength. Burmah-Castrol Inc., Hackensack, NJ, achieved national prominence due to effective pull-through advertising.

For years, the motor oil retail market has been characterized by low margin sales. Motor oil is used as a traffic builder by food chains, drug chains, and home centers as well as automotive chain stores. Non-automotive re-

PRODUCTS GO TO MARKET

MORE DIY MOTOR OIL TO BE SOLD

With the rapidly changing motor oil market still in a flux, the one thing that appears to be clear is that more motor oil will be sold in the future over-the-counter directly to DIYers. The percentage growth will be very small, but will outpace the percentage growth projected for total motor oil sales.

Sources: National Petroleum Refiners' Association, Frost & Sullivan

tailers are reducing their number of motor oil SKUs, and they are concentrating their promotional efforts on the leaders.

While some retailers drop oil leaders, this radical step is not typical of market trends. However, there is no doubt that medium size automotive chain stores resent the deep discounting of name brands by mass merchandisers and the large auto chains.

Oil Packaging, Promotions

The motor oil market is fiercely competitive. Manufacturers battle with packaging and promotions. Rebate promotions are still a market feature. Retailers hate handling rebate coupons and the oil companies are not really enthusiastic about them either. Rebate promotions are very expensive when a substantial number of consumers take the trouble to mail in their coupons. But—the promotions move merchandise.

Several oil companies have changed their rebate strategies. One, for example, puts the rebate coupon on its plastic quart bottle so retailers no longer have to handle the coupons. Consumers do have to mail the coupon back, however.

Acceptance of resealable plastic containers for oil, as replacements for the fiber quart, has been good. Just about all oil companies have introduced their own versions of plastic bottles, and they are moving quickly to phase out fiber containers.

The latest question in oil packaging is what kind of plastic package to offer. The first oil companies to offer plastic bottles used round bottles. Now, a number of oil companies hope to gain an advantage by offering flat or rectangular packages. One company, going a step further, has introduced a rectangular, plastic quart which features a "visigauge." This clear plastic strip enables DIYers to see how much oil is poured out of the container.

A product manager on this project says, "Our consumer research revealed that many car owners have considerable anxiety about driving their cars when the dipstick shows that they are down a half quart. Rather than wait until they are down by a full quart, they want to add oil *now*. To make it easier for motorists to precisely measure out the amount of oil to be added, we've gone to our new package. It is easier to handle and easier to store than the conventional round shape."

The rise of "quick lubes," specialists who sell oil changes at $18 to $20, shows that there are several kinds of buyers for lubricants and that there are other motivations besides low prices. This point has not escaped the oil refiners. *Automotive Marketing* has noted the involvement of several oil refineries in quick lubes. Other oil companies, too, are exploring increasing their gallonage through the service side of the market. They reason that the DIY motor oil market has peaked. They cite demographic reasons: older (and wealthier) segments of the population are less interested in doing their own oil changes. The take-out market for motor oil is not going to slide precipitously—but it is not likely to grow.

Antifreeze/Coolant

Both the motor oil market and the antifreeze/coolant market are are big, important, and slow growing. Retailers have traditionally offered deep discount prices on the name brands in both markets. But, unlike the oil market, which has several major brands, Prestone, from First Brands Corp., Danbury, CT, is the single best known and asked for brand of antifreeze. Mass merchandisers heavily promote it at sharply discounted prices. As with motor oil, this has resulted in a counter-trend: some chains are promoting secondary brands.

Significantly, consumer demand for Prestone is so great that virtually every automotive products retailer carries it. Some may not give the brand very good shelf position, but they stock it.

The total market, according to the Chemical Specialties Manufacturers Association, is 230 million gallons. Mass retailers account for about 110 million gallons while about 60 million gallons are sold through traditional market installers. Bulk sales (chiefly fleet) take up about 50 million gallons, and OE sales make up the remainder.

For the 1986-87 season, sales were expected to be slightly below 1985-86. There still are some inventories left over due to milder-than-normal winter in 1985-86.

Additive Chemicals

What do additive chemical suppliers think of selling on price only? One marketing director says, "Many retailers buy chemicals for the wrong reason, such as deals or up-front advertising money from the manufacturers. They also buy products because they offer the lowest price in their category. They assume that all products are equal and that price is the only thing which moves the product. What they should be doing is make sure that the product can be of service to their customers. This means making sure that the product really provides a benefit—that it really does what it says it does."

Another marketing director says, "It is understandable that retailers would want to use some popular 'pivotal' items as traffic builders. However, it is foolish to football all chemical items. There seems to be a tendency among retailers to use price as the means for selling all chemicals—even the slower moving degreasers, hand cleaners, etc. As manufacturers, we deplore this. It is not good for retailers nor for us. Retailers who have hurt themselves by footballing products tend to pressure the manufacturers for price reductions."

If price is not the answer, what is? What *should* retailers do to boost additive profits and sales? He advises, "Merchandising! Be creative at the point of sale. You may have to sell antifreeze at low prices—but make sure that you remind the customer that he needs to flush out his radiator. And be sure to display radiator flushes next to the antifreeze. The same goes for motor oil; retailers should merchandise engine flushes with motor oil."

After all, there is not much point in building traffic unless that traffic buys other merchandise that can be sold at a profit.

New Additive Markets

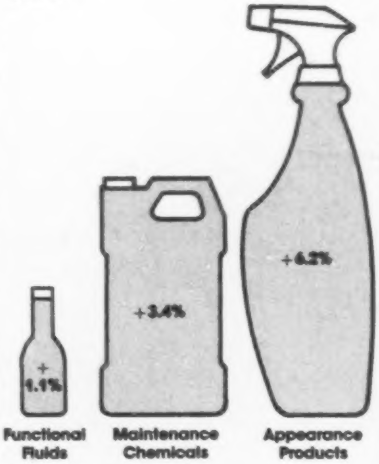
Fuel handling problems for cars designed to run on leaded gasoline and by the latest model fuel injected cars have created new markets and customers for additives.

In the past, the additive industry has depended upon a relatively small number of sophisticated customers. Mechanics or owners of older cars have sought chemical solutions to problems which might require costly overhauls. Viscosity improvers were bought by owners of cars with engine problems and carburetor cleaners have been bought by knowledgeable people to solve driveability problems. Newer car owners haven't needed these products and they haven't really understood them either.

That situation will change because of fuel injected cars. Consumer advertising and promotion are making car owners aware of how clogged fuel injectors can affect durability. Fuel injectors can become clogged as a result of dirt in the fuel line. A 5% blockage can result in a perceptible decline in driveability.

CHEMICAL MARKET GROWS

Appearance products lead the growth areaq for chemicals, but the total average growth for all automotive chemicals from 1984 to 1990 is projected at 3.07%.



Source: Frost & Sullivan

Gasoline companies recognize this problem and now offer injector cleaners in their premium priced unleaded gasoline. However, the cost of this protection is high, compared to using unleaded regular gasoline plus an additive. For example, if a car drives 2,000 miles on unleaded premium gasoline (costing, on average, about 10 cents per gallon more than unleaded regular), the driver pays about $10 extra for the gasoline company's cleaner. He could use regular unleaded gasoline and pay about 99 cents per can for an additive fuel injector cleaner. In 2,000 miles of driving he would save $6.

So, there is a growing market for fuel injector cleaners. The additives are offered by nearly every broad line manufacturer of automotive chemicals. Most of these manufacturers also offer lead substitute additives.

The need for lead substitutes is supposedly increasing—at least temporarily—because of the phase-out of leaded gasoline. Soon, leaded gasoline will be a thing of the past, a problem for all older car owners. But demand can only be temporary because the number of older cars will decline. Moreover, consumers are getting conflicting messages about the necessity of this product. Recently, a Motor Vehicle Manufacturers Association spokesman told members of the press that, despite the change to all-unleaded gasoline, "The owners of the older cars will be able to cope with the problem. Because of their age, these vehicles have a built-up cushion of lead around the valve seats that should keep the cars running for a long time, as long as their owners refrain from high speeds and heavy loads."

Appearance Chemicals

Traditionally, car waxes, polishes, and cleaners are fast turning self-service impulse items. And, traditionally, automotive products retailers merchandise appearance chemicals by featuring selection: a wide range of product categories and brands within categories.

The danger of a wide selection is, of course, slow moving SKUs. During the 1980-85 period, retail inventories of appearance chemicals rose because of an increase in innovative products. The innovations were quickly copied by competitors, which led to crowded shelves.

For example, when one company came out with a multi-product poly kit (at a super-premium price), almost instantly, another company countered with its one-step offering. These brands were then followed by super-premium polys from every conceivable wax producer, large and small. The period also saw the introduction of convenience spray waxes and fast waxes.

Retailers may be responsible for some of the too broad a selection problem. While they want to limit the number of SKUs they carry, they tend to intimidate some suppliers by insisting that, "We don't handle short lines. We like our suppliers to offer complete lines of products." Manufacturers, who do take retailers seriously, try to have a competitive offering in every category.

Some retailers are further narrowing their selections. In the Southeast, an executive said, "We decided to eliminate confusion. Give customers too many choices and they wind up so confused they walk out without buying anything. Why stock five brands of chrome polish? The customers can't make up their minds. We resolved to carry just one product in each category."

But how does the chain decide which brand to stock? "We try them. We give samples to our personnel and get their evaluations. We pick the brand which our people say works best. The advantage of this approach is that our salesmen can truthfully say, 'This works. I've used it myself.' "

That approach may be fine for the automotive chain store with a high ratio of salespeople per customer. However, in the majority of outlets, customers can not depend on finding a salesman to answer questions. On this point, one chain executive says, "Our sales people are normally at the back of the store behind the parts counter. Recently, we've had personnel in the front of some of our stores because we are re-merchandising all of our stores. Just being there, they could answer many questions about automotive chemicals, and our sales increased noticeably."

But the reality of the automotive products retailing world is that retailers are not going to hire more salespeople just to push chemicals. Chemicals have to sell themselves, based upon their packaging and consumer advertising. However, retailers are doing some things that will help increase appearance chemicals sales. They are redesigning their stores to make them more attractive to women shoppers.

One retailer says, "Women are becoming more important customers in the aftermarket, particularly for chemical items. We believe that until now women have been put off by the male dominated environments of typical parts stores. We suspect that one of the reasons women patronize certain auto stores is that they have more of the open appearance which women associate with grocery stores."

Vinyl Cleaners

For all practical purposes, the vinyl protectant and cleaner category *is* the Armor All, Irvine, CA, category. Armor All claims to hold 90% of this market. The company's president estimates that total retail sales of this category are about $175 million per year, making this easily the largest segment of the appearance chemical business.

No competitor or retailer disputes Armor All's claims. Retailers appear awed by its steady growth. A manufacturers' rep (who sells a directly competitive product) says, "Armor All's sales increases are staggering."

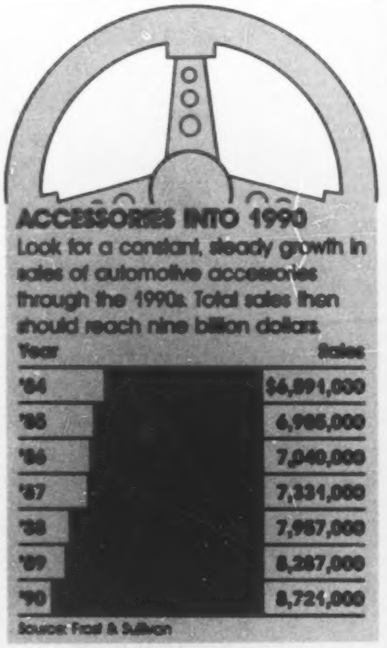
How does Armor All do it, especially with the trend to velour upholstery in cars? The company countered that assault with emphasis on the other "Armor All-able" surfaces such as tires, black rubber and vinyl surfaces, bumpers, louvers, and spoilers. In addition, consumers use the product for household purposes.

Accessories

Retail of accessories sales are benefiting from favorable economic conditions and demographic trends, plus a general upgrade of consumer tastes. And the news is as good for simple dress-up items as it is for high ticket electronics.

Electronic Accessories

There is good news on the electronic accessory front. American car owners continue to want the latest and best in car sound, radar detectors, cruise control, and electronic security systems. Electronics manufacturers continue to raise price points by introducing products which are higher in quality, easier to install, and feature enhancements. And, they are selling. But there are a few clouds in the otherwise sunny picture.



ACCESSORIES INTO 1990

Look for a constant, steady growth in sales of automotive accessories through the 1990s. Total sales then should reach nine billion dollars.

Year	Sales
'84	$6,891,000
'85	6,985,000
'86	7,040,000
'87	7,331,000
'88	7,987,000
'89	8,287,000
'90	8,721,000

Source: Frost & Sullivan

Manufacturers and retailers of aftermarket car sound items have to contend with more aggressive policies from the automobile manufacturers. The car makers are selling more vehicles with sophisticated sound systems and making changes which make it more difficult to remove OE units for replacement with aftermarket upgrades. However, retailers who are committed to the DIY sound business are finding ways to deal with the installation problem.

There are no installation problems with radar detectors, and, across the U.S., sales have been increasing rapidly in response to manufacturers' advertising and product innovations. However, demand for radar detectors tends to be somewhat regionalized: sales are highest in the states and municipalities which are most vigorous in enforcing highway speed laws.

Manufacturers of aftermarket cruise controls have a "moving target" problem. Each year they strive to find ways to make DIY installation easier. And each year the car makers incorporate changes which make installation more difficult such as downsized engine compartments, for example. But, cruise control manufacturers change too, designing easier DIY hook-ups, better packaging, and instructions (some on video). They are also encouraging chain stores to get a larger share of the business by offering installation services.

Demand for electronic security systems, like radar detectors, also tends to be regionalized, or more precisely, urbanized. But, where sales are good, they are very good indeed. An executive of one Southern chain says, "Our sales of these items zoomed when we opened stores in metropolitan Houston. We didn't do much business in anti-theft devices in the smaller, rural towns."

Car Sound

Demand for car sound is in no danger of decreasing. Americans appear to have an insatiable appetite for high quality sound items. So this isn't a "mature" market yet. In fact, retailers of auto parts and accessories report excellent sales of DIY-type radios, speakers, and players. For these retailers, there have been fairly steady increases in units for the past five years plus increases resulting from a movement to higher price merchandise. Customers for car audio have responded well to a succession of innovations: Dolby, graphic equalizers, auto reverse, etc.

The problem from the standpoint of aftermarket retailers is that car manufacturers are becoming more aggressive than ever about grabbing the business for their OE receivers and players. More and more, cars are fully equipped with sophisticated sound systems. People anxious to take delivery are inclined to accept such systems with the car, particularly if they are of good quality and made available at attractive prices. Also, to the great distress of CASA (the Car Audio Specialists Association), the car makers have not renewed the agreements on "delete options".

A "delete option" gives the new car purchaser the ability to order the car from the factory without a radio in it. This makes it far easier for the customer to have a sound system of his choice such as an aftermarket brand purchased from the car dealer, an automotive audio specialist, or a chain store.

The elimination of the delete option is of greater concern to manufacturers of higher priced sound systems than to manufacturers of lower priced, DIY-oriented systems. This is because the customers for the less expensive products tend to purchase them for cars which are three to four years old and older. In such cases there is a strong probability that the DIY customer will have to remove an existing unit to install his aftermarket "upgrade". Therefore, delete options at OE level are of no consequence to these customers.

On the other hand, buyers of used cars may be less inclined to install aftermarket upgrades in the future if the used car already has a pretty good stereo system. As recently as 1980, 48.3% of the new cars sold had only manual AM or AM/FM units installed at the factory. This meant good potential for selling DIY car stereos in 1982-85 as 1980 cars moved into the hands of audio-conscious second owners.

Therefore, although there continues to be good prospects for aftermarket audio near term (at least for manufacturers and retailers of DIY-oriented systems), there is growing concern among retailers about the future. As the 1990s approach, there may be less incentive for DIYers to rip out standard OE audio to install aftermarket stereos. Moreover, OE designers have (whether deliberately or not) made it increasingly difficult to install aftermarket upgrades. There is now more size difference between OE and aftermarket radios and players than there used to be. This means neat installation is hard without using an adapter kit, which includes spacer panels for the dashboard.

Of even greater concern are changes in OE wiring practices. On some models it may be necessary to remove the steering wheel to install a radio because the wires for the audio system are in the car's steering column. Finally, OE designers have been moving toward the integration of the car's entertainment electronics with the computer command electronics.

One retailer committed to the DIY sound business says, "There are obstacles but they can be dealt with. We try to have answers for the DIYers. We don't just sell a player and a couple of speakers. We'll explain the need for having an adapter kit in order to properly fit the space in the dash. In some cases, we may recommend a harness kit to simplify the hook-up to the car's wires."

So, properly approached, what seems like an obstacle can be turned into a selling opportunity.

Radar Detectors

It seems that the fabulous radar detector market is still growing. Some leading manufacturers think that about a million units were sold in 1985 and one says that unit sales for 1986 were around 1,250,000.

What accounts for the growth of radar detector sales? More consumer interest and awareness of the category stimulated by consumer advertising—that's what.

In other words, more and more car owners like the idea of owning a device which will give them timely warning that they are approaching—or entering—a highway speed trap. Since radar detectors are frowned on by law enforcement officials and are illegal in some localities, car owners have a preference for detectors which are inconspicuous in the car and small enough to be placed in a pocket or glove compartment when the driver leaves the car.

Product improvements have also stimulated the market. These include: LED warning lights, "dark mode" warnings, and better filters (for dealing with extraneous sources of microwave activity that might set off a false signal).

As with the demand for products, the number of producers has increased. There were only eight producers in 1982, while now there are about 18. And the stage is set for the entrance of offshore producers of micro-wave products. The rise in the yen may deter the Japanese a little; it probably will not deter the Koreans and Taiwanese.

Cruise Controls

The cruise control business continues to grow at better than 10% per year. Each year more people order cruise control with their new car purchases or have them installed after the sale. The not so good news (for retailers) is that their share of the business has leveled off.

Manufacturers of cruise controls design models for installation by car dealers (and car dealer expediters). Aftermarket models are sold via retailer installers (including electronics specialists) and auto parts retailers. The items are identical except for some cosmetic features.

Cruise controls sell fairly well among auto parts chains which have installation facilities. But sales are lower among automotive chains which are strictly DIY-oriented. One chain store executive says, "We haven't been too happy with the sales and returns. The fact is, a lot of car owners find it harder to install these things than they imagined. When they give up, they return the items as 'defective'. As a result, we are thinking of phasing out of the business."

Electronic Security

There are differences of opinion on the size of the electronic security device market. Suffice to say that this is a big market, at least $50-55 million as of 1986. It continues to grow rapidly because of theft problems in urban areas, more consumer awareness of the product, attractive new features (including "pagers" which alert you to tampering with your car while you are away from it) and importantly, design improvements which are making it easier for DIYers to do their own installation.

There are other reasons, too. Michigan has joined New York, Massachusetts, and Illinois in requiring insurance companies to offer a discount ranging from 5% to 20% on car theft insurance for those car owners who have installed security systems. The Vehicle Security Association is calling for similar laws in other states. And, from 1987 onward, car makers will have to provide an OE security system or stamp 14 different parts of each car with identification numbers.

The result is a booming car security market.

And, it's a big market. Experts estimate that only 4% of cars on the road today have security systems already. This could mean that the sales of such systems could grow by 20-30% over the next five years. Of course, many consumers get their systems installed when they buy the car new. As much as 15-20% of the security system market is presently held by new car dealers. But that leaves 80-85% of the market in the aftermarket.

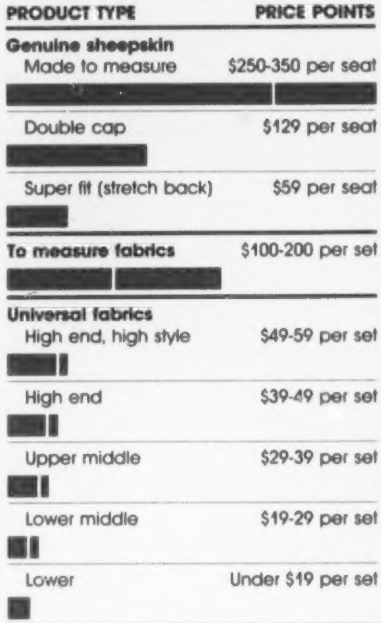
Price points have a wide range. One industry leader has products at price points of $29.95 to $159. At the lower end DIYers can buy a key-type system. Installation is not difficult but it requires drilling a hole. A keyless system sells for around $70, while silent paging systems start at around $90. Installation of these higher priced systems is actually easier than that of the key-type system.

Fashion's Hot, Too

Vehicle owners are spending more to maintain and enhance vehicle appearance using seat covers, car covers, and front-end masks—also called "sports car snoods" and "car bras".

Increasingly, these soft goods items are becoming a fashion business. Some retailers say that this reflects women's growing importance in the aftermarket. They claim young, single women are the fastest growing category of car owners. Such women are fashion conscious about their cars as they are their wardrobes. In addition, women make the decisions on purchases of seat covers for the family car, some retailers say.

PROFILE OF THE CAR SEAT COVER MARKET



PRODUCT TYPE	PRICE POINTS
Genuine sheepskin	
Made to measure	$250-350 per seat
Double cap	$129 per seat
Super fit (stretch back)	$59 per seat
To measure fabrics	$100-200 per set
Universal fabrics	
High end, high style	$49-59 per set
High end	$39-49 per set
Upper middle	$29-39 per set
Lower middle	$19-29 per set
Lower	Under $19 per set

Source: The Lindsey-Kaufman Co

Seat Covers

In the big, rapidly growing (between 10% and 20% annually) car seat cover business, vehicle owners are responding to smartly styled textile covers priced at $30, $40, and even $50 per set. A large amount of movement takes place at under $20 per set and there is a diminishing market for nylon covers priced at under $10 per set. Manufacturers and retailers of car seat covers are in general agreement on these market trend points:

- Sales of ready made seat covers were in the doldrums during the 1960s when low interest rates encouraged frequent trade-ins. Many consumers traded their cars before their upholstery became worn or unsightly.
- Demand for seat covers picked up in the middle and late 1970s as a result of inflation, higher

interest rates, and the trend to keep cars longer.

- Interest in seat covers as fashion items—things to enhance the car's appearance, shot up sharply after 1980 with the introduction of high priced, imported sheepskin seat covers.
- Sensing that car owners were willing to pay a higher price for a quality look, manufacturers introduced highly styled seat covers made of a variety of fabrics including nylon pile, knits and sophisticated woven tweeds, and velours.
- In addition to increasing unit sales, car owners are stepping up to higher price points.

Manufacturers do not agree on market size, with "absolute" figures ranging from $250 million to $500 million retail. And there are disagreements about strengths of sales at various price points.

Customer motivation appears to vary by price point. Retailers believe that the buyers of $9.95 per set items buy them to deal with problems like stained or torn upholstery in older vehicles. At prices of $20 per set and above, there is more interest in protecting good upholstery and giving a fresh, "new car look" to a newer car.

New car buyers are important consumers of high end seat covers. They wish to protect the car upholstery until the trade-in time (perhaps in four or five years). In the meantime, these customers want to enjoy a decent looking car interior.

As a result, there is a lot of interest in seat covers with an "original equipment look". Alternatively, some owners seek chic styling not available in OE upholstery for their car make such as "racing stripes" associated with imported sports cars or the "saddle blanket" plaids and checks of upscale pick-ups and 4x4s. Seat covers offer exciting possibilities for individualizing car interiors.

Are all automotive retailers successful in selling seat covers? No. An executive of one fast growing chain says, "We are not getting the ROI and the sales per square foot that we want. Why not? Probably because the business is going to retailers who devote more space than we do to seat covers."

What does it take to sell car seat covers? At the retail level, manufacturers say it takes:

- The willingness to stock the full range of styles, colors, and sizes required by car owners.
- The willingness to devote sufficient space to display the full line.
- Consistent advertising—the greater the frequency the better.
- An understanding of local needs and tastes, including the types of vehicles registered in the marketplace.

Many retailers are finding it worthwhile to increase the space they offer seat covers; some have doubled and quadrupled the product space during the past few years. And the business does not require an enormous amount of space. Retailers can set up a seat cover section in eight to 12 feet of space.

Car Covers

Car covers originated when a shower curtain maker improvised a cover for his car to protect it from dust and chips from a nearby sandblasting operation. A store buyer saw the covered car and the product category was born. That company's sales reached 14,000 the first year covers were offered; now it sells hundreds of thousands annually. And, now there are other suppliers as well.

Car covers are made of a variety of materials including clear plastic, nylon, breathable polyester/cotton combinations, and 100% cotton.

The car cover business is large (retail sales estimated at more than $30 million) and growing at a good 10-15% per year. One of the leading manufacturers, believes that one reason for large increases in sales is a trend toward apartment living. "We have more people who don't have garages but want to protect their cars' finishes while parked overnight," a spokesman says. And, in fact, some consumers also purchase covers to protect their cars from dust near their work places.

Car owners buy car covers for different reasons around the country. Customers in arid Western states seek protection against dust when the car is parked outside. A Minnesota retailer says, "We have customers for clear plastic covers (they are protection against rain and snow) and we sell a lot of covers to people who want dust protection for cars stored away for the winter in garages. These might be owners of 1950s foreign sports cars or special interest cars of the 1960s—vehicles used only in the milder seasons."

There are differences among car covers in terms of fit and type of material. The majority of the covers sold by volume retailers are "universal": three to six SKUs can provide up to 95% coverage of applications.

Front End Masks

Demand for front end masks is increasing. A chain store buyer says, "They are not just for Yuppies anymore." Until recently, these products were associated with the import or sports car look. Now, older middle class owners of domestic cars are finding practical reasons to buy them such as the increase in production cars featuring low slung, aerodynamic styling. Sports car "fronts", no longer restricted to race cars, are found on mass market domestic and imported sedans. Consequently, these cars are more vulnerable to the sand and gravel kicked up by highway traffic.

The front end mask is one item on which a close fit is particularly important. The "one size fits all" approach doesn't work. Designs must take into consideration placement and sizes of headlights. The requirement for a long list of SKUs has restricted the number of potential suppliers.

The same favorable trends that are increasing sales of elec-

PRODUCTS GO TO MARKET

tronics and car fashion goods generally apply to other dress-up items like car mats, truck mats, truck bed liners, custom wheels, and wheel accessories as well.

Hard Parts

Hard parts is *Automotive Marketing's* term for replacement parts, a grouping of products which had a retail value of over $30 billion in 1986. The grouping includes two dozen major categories of parts ranging alphabetically from alternators to windshield wiper products, and including in between such items as filters and gaskets.

The term "hard parts" is somewhat ambiguous. For example, some marketers reserve the term "hard parts" for hard-to-install items that are generally installed by professionals—things like engine parts. To some marketers, such fast turnover, DIY-oriented items as spark plugs, air filters, and wiper blades are defined as "merchandising" parts. Alternators and water pumps are called by some, "bolt-on parts". Some marketers call exhaust system parts and shock absorbers "quick change parts", because they don't take long to install. Generally, however, hard parts can be described as items car owners *must* replace as opposed to optional things such as accessories, appearance chemicals, and the like.

Recently volume retailers have made a deeper penetration into the replacement parts market. Moreover, volume retailers have a *need* to improve their competitive positions by such penetration.

Five Hard Part Categories

There are, basically, five categories of parts, important in themselves, that also illustrate this important point: In a market that is now growing more slowly overall than in past years, there are, nevertheless, excellent opportunities for growth by emphasizing higher value products and market segments. In some of these categories, specialist service franchise operations are giving intense competition to the professional general installer and the willing-to-work DIYer.

The big, complex *ignition parts, wire & cable* category provides examples of growth via higher priced, higher value products (e.g., distributor caps) and also new product categories (e.g., electronic control modules and sensors).

The *cooling system category* provides an example of a new, big ticket opportunity for automotive retailers in selling complete, new replacement radiators. Retailers who are stocking radiators and letting consumers know that they have them are finding big sales and profits.

RELATIVE SALES PROSPECTS FOR IGNITION/WIRE ITEMS

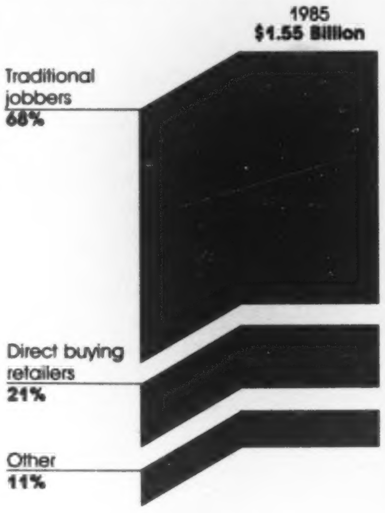
Declining Unit Sales
- Point sets
- Condensers
- Some voltage regulators (because of movement to electronic VR)

[illegible]
- Distributor caps
- Rotors
- Coils
- Ignition wire sets
- Sending units measuring temperature, oil pressure

[illegible]

THE IGNITION PARTS, WIRE, & CABLE RETAIL MARKET

Estimated retail sales ($ billions) and estimated share by channel for 1985.



- Sales by 1990: **$1.7 Billion**
- Estimated DIY percentage: **48%**
- Overall growth rate 1980-90:
  - In current dollars, **1.9%**
  - In constant dollars, **-0.5% to -1.0%**

The *ride control category* provides several examples of extracting more dollars per driver; the shift from shock absorbers to struts and from conventional shocks and struts to higher value, gas pressurized versions.

The *exhaust system products* category provides an example of how marketers can find growth by taking advantage of an under-exploited, big ticket segment of a category. In this case, the opportunity is in catalytic converters; a segment of the market that previously was left to car dealers because of 50,000 mile warranties.

In *remanufactured parts* retailers are finding that suppliers are upgrading their lines and in some cases offering two lines of parts, which allows them the opportunity to sell with more confidence.

Now, let's examine the five categories in detail.

Ignition Parts, Wire, And Cable

This is one of the largest categories in the aftermarket (retail sales for 1986 were about $1.7 billion) and one of the most complex in terms of trends by product line within the category, and trends by channel of distribution.

For the category as a whole, the expectations are for very slow growth. A recent Frost & Sullivan study estimates that retail sales for ignition parts, wire, and cable will reach $1.7 billion in 1990; the growth rate for the 1980-90 period is 1.9% per year in current dollars. Meaning that overall, the category is expected to decline in terms of constant 1980 dollars.

PRODUCTS GO TO MARKET

One manufacturer, which has been tracking the tune-up market for many years now, recently reported that "the DIY trend—virtually level for nearly a decade—began its downward course in late 1983." The company's statistics show that this trend has continued, as DIY installation has "dropped from 41% in 1983 to 38% in 1985."

These numbers are a bit lower than those produced in *Automotive Marketing's* benchmark DIY studies published in 1984, 1985, 1986, and 1987 (and actually made in 1983, 1984, 1985, and 1986). However, even these figures confirm this trend. In 1984, 59% of those who purchased and installed automotive products—DIYers—did tune-up work. In 1985 this number had slipped to 51%, and it had slipped further, to 44%, in 1986.

The main reason for slow growth in real terms is the movement from electromechanical ignition using points and condensers to electronic ignition. However, growth continues for many items that have not been displaced by electronic ignition. These include caps, rotors, coils, ignition wire sets, battery cables, temperature sending units, and oil pressure sending units. In addition, there are opportunities for growth from newer items in the system, such as electronic ignition modules and the reluctors, sensors, and pick-ups incorporated in post-1975 distributor caps. Marketers of ignition products are finding growth opportunities in items that cross over into other functional areas. For example, temperature sensors that are part of the emissions control system play a role in the operation of the electronic ignition system. Some manufacturers of ignition products are introducing lines of temperature sensors.

Finally, an important point about the ignition parts business is that it illustrates the fact that volume retailers are finding large opportunities in value-added products—like high performance spark plugs, caps, rotors, and ignition wire sets. These items demand higher prices because they are product upgrades rather than necessities at the basic level.

One manufacturing executive observes that dollar sales of this industry have been sustained by a shift to higher-cost, higher value products. "For example, the retail price on a distributor cap for a 1972 Chevrolet might be $6. In contrast, the price for a 1980 Chevrolet distributor cap might be $12. The difference reflects the cost increases mandated by more demanding specifications. These include more problems relating to emission standards, the need for more voltage resistance, and the need to cope with changes in fuel standards."

And another manufacturer says, "The need to use more costly material is one factor increasing prices. For example, there is more use for silicone insulated wire rather than hypalon. On the other hand, the shift to four-cylinder engines means that only five wires are used versus nine for larger engines.

"Another factor increasing costs and prices is a move to larger items. For example, distributor caps on some late model cars are 50% larger than those used on earlier models. This is because the new, higher-energy models need to have more space between electrodes; the smaller the distance, the greater the danger of arcing."

DIY Sales

Installation of ignition parts still rates high among DIY activities even though purchase levels among DIYers have dropped as cars have become complex. The 1984 *Automotive Marketing Vehicle Maintainer Study* indicates that 9% of all DIYers purchased electronic ignition modules over the course of 1983. The 1987 *Consumer Automotive Repair Study* indicates, however, a drop to 4.4% in the numbers of DIYers who bought the same types of modules in 1986.

However, despite the movement to electronic ignition, some car owners—especially those with older cars—are still doing their own installation of ignition parts, including caps, rotors, coils, ignition wire, and modules. Based upon consumer surveys, some ignition parts manufacturers estimate that nearly 48% of sales of ignition parts, wire, and cable are installed by DIYers.

Does that mean that volume retailers have 48% of the business versus 52% for traditional outlets? No. There are many cross-overs by distribution channel. Thus, many wholesalers are getting substantial portions (up to 50%) of their ignition business from DIYers. And on the other hand, many retailers obtain a substantial amount of ignition business from professional installers. In addition, the situation is further complicated because some chain stores obtain 25% to 33% of their ignition parts business on an installed basis.

It is interesting to note that some consumer surveys indicate that many DIYers prefer to buy their ignition parts from wholesalers. Why? We can speculate that it is because the jobbers are more likely to be of assistance on selection and tips about installation.

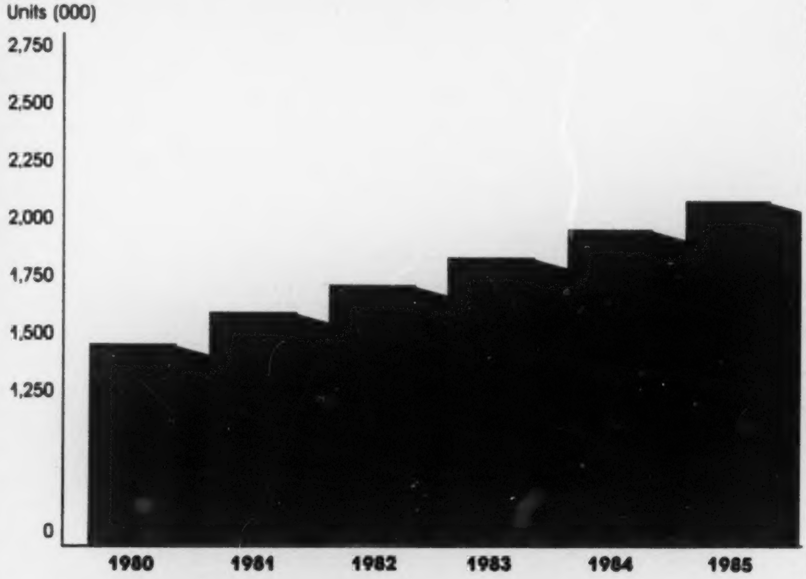
The most recent estimated sales breakdown of ignition parts, wire, and cable is as follows:

- Professional installers and DIY sales through jobbers: 68%.
- Over-the-counter sales and installed sales by direct buying retailers: 21%.
- Other outlets, including car dealers and tune-up specialists: 11%.

Despite the fact that DIYers prefer to deal with jobbers on ignition products, there seems to be little doubt that retailers are gaining market share at the expense of the traditional market. There appear to be three important reasons for this:

- Sheer growth in number of outlets (especially for automotive chain stores backed by billion-dollar corporations).
- Faster growth in sales per outlet, based in part on the price advantage of the chain stores and, in part, on a willingness to

THE MARKET FOR REPLACEMENT RADIATORS
Estimated Annual Unit Sales of New Radiators



- Estimated failures per year: **12-14 million**
- Estimated used/recored replacements per year: **5-6 million**
- Estimated new replacements per year: **2-2.5 million**

Source: Modine Auto-Cool

increase inventories to provide greater coverage of applications.

- Increasing penetration of the professional installer market by aggressive chain stores.

Proving this last point, one ignition manufacturer says, "Chain stores are rapidly increasing their sales of 'installer items' such as ignition switches, temperature sending units, and oil pressure sending units. In order to replace ignition switches on many models, it is necessary to remove the steering wheel. We believe that not one in 20 DIYers will attempt this. Therefore, it is clear that such items are purchased by professionals."

Shifts In Composition

Some important shifts appear to be taking place in the composition of the volume retail market for ignition and wire products.

Essentially, it is costing retailers more to stay in this game. It is becoming harder and harder to compete on the basis of short lines. Therefore, there seems to be a tendency for automotive chain stores to gain share of this market at the expense of the less committed discount and department stores. The automotive chain stores tend to have the advantages associated with jobber-retailers—full lines and knowledgeable sales people.

Some manufacturers believe that the least committed retailers are at the point of discontinuing their offerings of ignition parts. In any event, some of the committed chains appear to be finding rapid growth via gains in market share.

Regarding industry growth prospects, a manufacturer says, "It is true that some types of ignition parts are being phased out and that overall growth is slow now. And, in fact, this market hasn't bottomed out yet. Meaning, that for a few years to come, the climbs from obsoleted products will not be offset by gains from new products. However, the changes in automotive technology are going to result in new replacement market opportunities. For instance, we see new opportunities coming for sensors of several descriptions—engine speed, engine coolant temperature, ambient air temperature, and vacuum condition. These are in use now. They are used to feed information to the car's central computer. The replacement market for these devices will develop over the next three years."

The Radiator Market

The cooling system market includes such items of long standing interest to volume retailers as anti-freeze/coolant, belts and hose, thermostats, and water pumps. Demand for cooling system products during the past five years has tended to increase faster than the average rates for the automotive aftermarket. This has to do mainly with an increase in underhood heat in newer cars. This factor alone should cause automotive retailers to be interested in cooling system products. And now retailers have another very significant reason to be interested—new opportunities in sales and installation of complete new radiators.

Not too long ago volume retailers (and parts jobbers) had to turn away customers for radiators. A motorist with a faulty radiator could:

- Hope that it could be repaired by a radiator specialist.
- Purchase a used radiator from an automotive dismantler (junk yard).
- Purchase a rebuilt ("recored") radiator either from a radiator specialist or from a garage who got it from a radiator specialist.
- Purchase, at a very high price, an OE radiator from the car dealer or radiator specialist.

Today, DIYers (and installers) have the option of purchasing complete, new radiators either from parts jobbers or, increasingly, from volume retailers. The latter include both retailers with installation capabilities, like Pep Boys, and dry stores such as Auto Shack and Auto Works.

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Two factors have been responsible for the change in this market. One, shifts in OEM design from repairable units built with brass tanks and copper cores to non-repairable units built with plastic tanks and aluminum cores. This has reduced the number of car owners who can exercise the option of having their radiators repaired and put back in the car.

Second, some manufacturers of automotive radiators made a commitment to manufacturing efficient and economical units for the replacement market. They also committed themselves to application coverage for most of the nation's fleet of cars and trucks with the lowest possible numbers of SKUs. And, manufacturers have also made a commitment to developing distribution centers and specialty distributors (feeders) to provide prompt delivery to volume retailers and parts jobbers.

The trend to retail sales of complete new units is significant for these reasons:

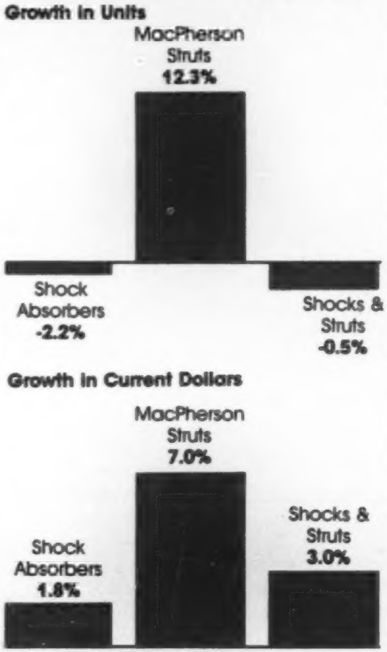
- Complete radiators are a big ticket item. Retail prices for the part alone are in the range of $100-150. As such, they represent an important means for extracting more dollars per driver.
- Retailers' margins are in the range of 30-40%; therefore radiators are good sources for gross profit dollars as well as gross sales dollars.
- The radiator customer is, of course, a prospect for other cooling system items.
- Compared to most aftermarket products, growth prospects are excellent.

On the last point, unit sales increases for complete, new radiators averaged 10% per year during 1980-84. For the industry as a whole, there was very little growth in unit sales during 1985 as a consequence of unusually mild weather. Sales picked up somewhat the following year. However, volume retailers experienced more growth in the business because of increases in the number of their outlets and gains in market share.

MORE DOLLARS PER DRIVER IN THE RIDE CONTROL MARKET

Period	Change		Impact
	From	To	
Late 1970s	Conventional Shocks	"Mac" Struts	Retail Prices Up 400%
Early 1980s	Conventional Shocks	Twin Tube Gas Shocks	Retail Prices Up 30%
Mid 1980s	Conventional Car Shocks	RV Shocks	Retail Prices Up 100%
Mid-Late 1980s	Conventional Struts	Gas Struts	Retail Prices Up 30%
Late 1980s	Conventional Shocks & Suspension	"Smart Suspensions" (Electronically Controlled)	Retail Prices Up 300%

PROJECTED GROWTH RATES IN RETAIL SALES FOR SHOCK ABSORBERS AND STRUTS, 1983-90



Source: Frost & Sullivan, Inc.

The key factor in sales of radiators by chain stores and jobbers is awareness. Customers have to know that this product is available. They are not accustomed to buying radiators from parts stores. So, as in other developing product categories, advertising and promotion are important. So is training the retail sales personnel who must guide the consumer through a purchase.

Ride Controls

In this category the focus is on two important categories of ride control: shock absorbers and MacPherson struts. The sales curves for these two categories are going in opposite directions. The outlook is for declining unit sales of shock absorbers and for rapidly increasing sales of MacPherson struts. Leading shock absorber manufacturers have moved into production of struts. However, because wholesale prices of struts are falling with increases in volume, manufacturers' gains on sales of struts are not offsetting their declines in sales of shock absorbers. So, overall, combined retail sales of shocks and struts are expected to increase at a modest 3% per year in current dollars.

What are manufacturers and retailers doing about this situation? Well, the alert companies are:

- Fighting harder than ever for sales gains via market share increases.
- Targeting growth segments of the vehicle market—such as performance cars, light trucks, and 4-wheel drive vehicles.
- Introducing premium priced, high value products, like gas shocks, heavy duty shocks for RVs, and gas struts.

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In a sense the movement of manufacturers into production of struts represented a shift to higher value products. However, that has been more a matter of defensive reaction to changes in the market rather than an innovative strategy.

In contrast, the introduction of gas pressurized struts has been a well thought out strategy for upgrading sales. Therefore, the ride control industry provides an excellent example of more dollars per driver.

MacPherson struts provide both a suspension function and a shock absorber function. Typically, most designs for late model, front wheel drive cars call for sets of struts on the front axle and shock absorbers on the rear axle. Therefore, there continues to be a role for shock absorbers. What is significant in terms of retail sales is that retail prices for a pair of conventional struts can be four times that of a pair of shocks.

Changes In DIY Practice

When MacPherson struts were first introduced, manufacturers believed that the change represented good news for service dealers and bad news for DIY-oriented retailers. The word was that struts were very difficult to install without special equipment, in particular, spring compressors. As a result, volume retailers were expected to lose share of the ride control market.

In fact, the volume retailers with service bays found large sales increase in installing struts. In addition, DIYers have shown great willingness to do strut installation. One thing that has helped the DIY strut market has been the introduction of modestly priced spring compressors for DIY application.

Expensive monotube gas shocks have been on the market for years. However, very high manufacturing costs and retail prices limited the market to applications on very expensive cars—like Mercedes and BMW.

The development of lower-cost twin tube gas shocks in the early 1980s has been very significant in broadening the market for superior ride control products. Typically, gas pressurized twin tube shocks retail for about 30% more than conventional shocks. That's not too high a premium for quality-minded car owners.

Gas Shocks

One manufacturing executive observes that, "Volume retailers have done very well on gas shocks, particularly in comparison to jobbers. They have been more aggressive than the jobber in advertising these items and in training their sales people to recommend them in favor of conventional shocks."

It helps that there has been good word-of-mouth advertising for gas shocks based upon customer satisfaction. As we were told repeatedly, "Gas shocks provide a demonstrably superior ride. You can feel the difference."

It also seems to help that the current generation of Americans appears to be especially quality minded in comparison to previous generations. "They are fussy and demanding—but they are willing to pay more for really good products."

But, retailers have to be prepared to sell them. This means having the products, displaying it, making effective use of point of sale material, training the sales people to suggest the sale—and backing offers with systematic advertising.

Conventional shocks have a life expectancy of 20-30,000 miles and are replaced, typically, at about 34,000 miles. One of the interesting things about quality-minded consumers is that they don't necessarily wait until their conventional shocks are totally worn out before replacing them with gas shocks. It is not merely a replacement sale but an upgrade sale.

Owners of 4-wheel-drive vehicles appear to be especially disposed to replace their conventional shocks with upgrade shocks and sometimes purchase them for new vehicles, scrapping the OE shocks..

Typically, upgrade shocks for 4-wheel-drive and other recreational vehicles are priced up to 100% more than conventional shocks.

In the strut market, gas pressurized struts are now offered as an upgrade on conventional struts. As in the case of gas shocks, they cost about 30% more than the standard struts and they appear destined to take an increasing share of their respective market.

There seems to be no limit to the possibilities for selling upgraded ride control products to performance-minded vehicle owners. What's next? Late in 1986, shock absorbers that use electronic sensors to adjust the ride were introduced to the aftermarket.

Exhaust Systems

The principal items in the exhaust system category are mufflers and pipes. Retail sales of these items alone exceeded $2 billion in 1986. However, the market for these products is mature; retail sales in constant dollars will be barely more than 1% per year during the remainder of the 1980s.

So, what do manufacturers and marketers of exhaust products do to find more growth? Make better, higher value mufflers?

The market leader, Walker, introduced a markedly improved muffler in 1985 that didn't cost consumers any more than the earlier models. However, to obtain more dollars per car, the company found another replacement market to develop—the catalytic convertor, in a different part of the exhaust system.

As most aftermarket participants know, when the U.S. government mandated that car makers install catalytic converters on their vehicle exhaust systems (as the most effective means of reducing vehicle emissions), it also required the car makers to offer warranties of five years or 50,000 miles on their catalytic converters.

For this reason, participants in the aftermarket have tended to regard catalytic converters as strictly a car dealer item. Taking a longer view, Walker considered that there is now a population of older cars and trucks (the 1975 to 1980 model-years) which constitutes a substantial potential market for replacement units.

The Potential Market

How large a market? Precise estimates are not available at this time; at a guess, about 500,000 units per year. Moreover, it represents a bigger ticket opportunity for vendors than sales of mufflers, tail pipes, and engine pipes.

Walker saw an opportunity for universal, replacement market catalytic converters that can be priced below the OE-type units sold via car dealers. The company entered this market in the Fall of 1984. Retail prices for its replacement catalytic converter are "under $100 per unit, versus $200 to $500 for original equipment type units."

Are the aftermarket units identical with OE units? No, they are not. One reason that they are cheaper is that they are universal, meaning that they are designed for many makes and models of vehicles rather than designed for individual makes and model-years. Also, they are not designed to last as long as the OE units. Let's face it, how many owners of cars that are five, six, and seven years old intend to keep them until they are ten, 11, or 12 years old?

So, as Walker sees it, there is an interesting, growing market for replacement units that are priced well below those of original equipment units. And, this is a plus market for parts wholesalers and retailers, a business that, up to now, they have left strictly to the car dealer channel. Figuring that sales potential is in the range of 400,000 to 600,000 units, and that retail prices are in the range of $85-95 per unit, annual retail sales could reach $34-57 million. Estimating more closely at 500,000 units at $90 each, the retail sales potential is about $45 million.

But what about installation? Can anybody install converters? What kind of skill and tools are required? A manufacturer says, "It is no harder to install catalytic converters than mufflers, and DIYers *can* do it. All that is required for DIY installation are a hack saw and basic wrenches."

How about the motivation and awareness for replacement of faulty converters? Are car owners aware that or when their converters need to be replaced? Also, practically speaking, do they feel *compelled* to replace worn-out converters?

Will The Car Owner Respond?

Interesting questions. The answers are that these factors can vary across the United States depending upon whether the individual state has periodic mandatory vehicle inspection (PMVI) and how conscientious car owners are about the performance of their vehicles.

There are two reasons owners of older cars should want to replace faulty converters: First, a car with a malfunctioning converter is spewing noxious chemicals into the air; second, a car with a faulty converter can't be properly tuned.

In the first case, the car owner has the motivation of being a good citizen (or at least, not being fined for being a negligent citizen). In the second case, he has the powerful self-interest of driving a smoothly running automobile.

In the states with mandatory vehicle inspections, where the owner of the older car can't get away with driving a car with a faulty converter, there is already a growing market for universal-type replacement converters. Car owners *must* obtain replacements and they are becoming aware that lower-cost units are now available from parts jobbers and volume retailers.

In the states that do not have PMVI, motorists can go for long distances without being aware that their catalytic converters need to be replaced. In order to be absolutely sure that a replacement is needed, it is necessary to insert a probe into the exhaust system. Where mandatory inspection is lacking, the car owner is likely to become aware that he has a problem with his catalytic converter because he is encountering a problem with his car's performance.

In those states retailers have to promote the awareness of catalytic converter problems. Chain stores that operate service bays can do the inspection themselves if they have invested in gas analyzers. The latter are useful, also, in tune-ups and engine diagnostic work.

Chain stores without service bays have to remind car owners to have their emissions checked, and impress upon the car owners that they have the replacement parts that can be readily installed either by the car owner himself or by a professional installer of his choice.

Chains that sell strictly on an over-the-counter basis might do well to promote sales of catalytic converters on a wholesale basis to professional installers.

Remanufactured Parts

Unit sales prospects for remanufactured parts vary by item. For example, generators are disappearing from the market. On the other hand, unit sales of clutches are increasing because of the underhood heat problems in today's smaller cars. For the longer term, there may be good growth prospects for items new to the parts rebuilding industry. These include turbos, rack and pinion steering, and constant velocity (CV) joints.

For the bulk of the more familiar bolt-on remanufactured parts, the outlook for unit sales is a flat 2% per year growth. However, volume retailers are obtaining much faster growth on these items through market share gains.

On remanufactured as well as new parts, suppliers and retailers are endeavoring to achieve market share gains and better margins by emphasizing higher quality products and lines.

At the retail level, some chains are moving to longer and longer warranties; up to five years in the case of Chief Auto and up to

PRODUCTS GO TO MARKET

THE MARKET FOR REMANUFACTURED PARTS

Items	Sales Trend	Comments
Alternators Starters	Slow growth overall but sales up for chains via market shares.	Arrow introduces premium priced lines.
Generators	Slower growth.	
Clutches	Unit sales up. (Because of heat problems)	Champion introduces new heat resistant clutches
Brake shoes Calipers Carburetors Master Cylinders Power Steering Components Blower Motors Wiper Motors Smog Pumps Water Pumps Fuel Pumps	Sales up for chains via market share gains	Chains show interest in selling higher quality remanufactured items. Promoting sales via lengthy warranties.
Turbos Rack & Pinion Steering CV Joints	Relatively new items remanufacturers. Growth prospects good.	

seven years for Trak Auto.

That is further than most chains appear to want to go (and further than suppliers think they should go). One retailer has moved from a 90-day warranty to a one-year warranty. To do this, the chain switched to suppliers offering higher quality. A spokesman said, "Our prices and margins haven't changed much, but we can sell these items with more confidence. That's important. Sales people hate to deal with customers on comebacks. Because we have greater confidence in our remanufactured items, we are selling more. And these customers are buying our accessory and chemical items."

Although parts proliferation is a problem, some of the larger chains (including Nationwise and Western Auto) like the idea of having *two* lines of remanufactured parts; a standard (good) line, and a premium priced (better) line.

One rebuilder recently introduced a premium line with a higher proportion of totally new parts plus a three-year warranty. For $12 more, retail customers can purchase a lifetime warranty.

Another rebuilder, moving more cautiously on the question of offering multiple quality levels, has its own approach to upgrading. Using one line, rather than two or more, the rebuilder introduced new clutches that use woven fiber facings rather than molded fiber. In addition, copper fibers, which cost only a small percentage more, are included to dissipate heat. The rebuilder also redesigned the clutch packaging, using a four-color box that explains the product and its advantages.

So it seems as if both manufacturers and retailers have realized the value of upgrading their lines. The primary customer concerns with remanufactured parts have to do with quality and warranty. Knowing the details about water pumps, alternators, and starting motors, for example, can lead to more dollars per driver in this category.

Selling hard parts will continue to be a challenge for the retailer, but a challenge that can lead to even better profits from higher value profits. Knowing the market, knowing the product, and knowing what the customer needs are the way to go for the hard parts retailer.

Special Markets

Besides the broad-category product lines that every aftermarket retailer must stock, there are special markets—markets of owners of particular vehicles like light trucks, off-road-vehicles, performance cars, imported cars, and professional installers—that should be addressed to some degree. Just what that degree should be depends on the area vehicle mix, and the retailer's merchandising plan. Even if the retailer decides not to address these markets, he should consider them.

Light Trucks

Who owns light trucks? Typically he's a male, with a median age of 36 years old—six years younger than the buyer of a full-sized truck. In fact, some automaker representatives call compact pickup trucks "the official youth vehicle" in California.

Otherwise, as reported in several recent studies, the average light truck owner has a household income of $34,500 a year (slightly below the $35,600 median household income for all new car buyers); uses the truck as the household's primary vehicle; and has attended at least some college. Most owners drive their light trucks for personal, rather than business, use.

Generally, the light truck owner profile fits the profile of an average DIYer. Moreover, the light truck owner is predisposed to buy aftermarket products. A General Battery Corp. study indicates that 82% of all light truck owners plan to buy some special equipment or an accessory for their vehicle within the next year. So selling to this group is generally easy. And, most of the products they plan to buy are products especially designed for light trucks.

Among the most popular light truck products—products light truck owners themselves mention as being in their future buying plans—are heavy duty shocks, off-road tires, wheels, driving/fog lights, heavy duty springs, lift kits, roll bars, grille guards, electric winches, and exhaust headers. There are, however, other products that many light truck owners don't mention, often because they don't know their benefits.

The Mini-Van Owner

In many ways the mini-van owner is a different sort. The mini-van has begun to take the place of the station wagon, and its owner is more like a typical station wagon owner than a light truck owner. Therefore, his wants and needs differ accordingly. *Newsweek's* recent study, *1986 Buyers of New Cars,* reveals some interesting data about these mini-van owners.

Males make up 68% of mini-van owners; 92% of mini-van owners are married. In all, 6% of new car buyers 25-34 years old, 7% of new car buyers 35-54 years old, and 4% of new car buyers over 55 years old bought mini-vans. The median household income of a mini-van owner is $45,400—notably above that of the typical light truck or passenger car owner household. The mini-van is the principal vehicle in 68% of households with these vehicles.

Most mini-vans are used for getting to and from work—only 11% of their owners reported that their mini-van's principal use is purely pleasure. Finally, 76% of people who bought mini-vans didn't consider buying any other type of vehicle.

The *Newsweek* study also describes the types of people who buy mini-vans. The results were remarkable. The study found that the largest group of mini-van buyers is made up of people who are individualistic in outlook; who are more concerned with what products actually do than the image they present; who are leaders in their professions; and who are self-reliant but careful about their spending, and who are discriminating. In other words, trendsetters, rather than followers, are buying mini-vans.

These findings indicate that there is room for great growth in sales of this type of vehicle—possibly more than in any other type of vehicles, since the trendsetters, who are buying mini-vans, tend to lead the rest of the population in their buying habits.

"Minis" vs. Truck Owners

Geographic locations of mini-van owners and light truck owners also differ. By area, 14% of new mini-van owners live in the Northeast; 38% in the North Central; 33% in the South; and 15% in the West. By contrast, most light truck owners are in the northern Rocky Mountain States.

Mini-van owners will not buy traditional light truck items. Not for them, the off-road lights, roll bars, gun racks, musical horns, and tool boxes that traditional light truck owners snap up. Yet there are a number of products that mini-van owners will purchase. Generally, they are the same type of products that luxury car or station wagon owners buy. They want functional accessories, things that do a specific job rather than things that go flash in the night. Things like floor mats, fog lights, security devices, and good audio equipment are what mini-van owners want and will buy.

The Jeep Owner

Then, there are the Jeep and similar utility vehicles. Owners of these vehicles are different from mini-van and light truck owners. Still officially "light trucks," these vehicle owners are largely male—American Motors, which makes Jeeps, says 82% of Jeep buyers are male. And their average income is $79,000 (around the same as the average Mercedes buyer's income), which makes Jeep owners the best heeled of these groups.

Many Jeep owners are not really DIYers—at least conventional blue-collar, low-income DIYers. Any work they do on their vehicles is done strictly for pleasure, and is not apt to be involved, complicated repair work. They get their service and installation work done professionally. Indeed, as most of them are professionals themselves, they prefer to have other professionals handle technical jobs.

They seek a certain automotive style that projects a rough, macho look. But they really aren't frontier type people; they're doctors rather than farmers. One owner of 21 Texas car dealerships, including some that sell Jeeps and similar vehicles, was recently quoted in *Forbes* as saying, "I'd guess 90% to 95% of the ones we sell never get off the road." And, utility vehicle owners pay big money for that style, as much as $24,000 for a fully-equipped top-of-the line Jeep Grand Wagoneer. Production dropped in 1986, however, when 187,917 Jeeps were made, down from the 229,475 made in 1985.

Jeeps, and similar vehicles, are rarely primary household vehicles. Their owners rarely drive them back and forth to work. They're fun vehicles, used to tool around on weekend afternoons. President Reagan has two he drives around on his California ranch; Ex-President Ford drives around Palm Springs, CA, in his.

That's not to say that Jeep owners don't patronize the aftermarket. People who are as conscious of making a statement about themselves through their vehicles as Jeep owners are tend to customize their vehicles. They want fancy paint jobs, pinstriping, and extra lights outside, while inside they put on fancy seat covers (nothing but top-of-the-line is good enough for them), good AM/FM/Cassette stereos and speakers, on-board computers, and—would you believe—even air conditioning.

Selling to this group means stocking and merchandising top-of-the-line products; nothing but the best in accessories will do for this crowd.

Imported Cars

Frost & Sullivan's most recent study of the Import Car Aftermarket estimated that this market reached $8.4 billion in retail sales of parts, accessories, batteries, and chemicals in 1983. The

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marketing research firm further estimated this market reached $11.3 billion in 1985, and will keep growing through the 1980s, reaching nearly $24 billion in 1990.

According to that report, the prospects for chain stores retailing import car parts and accessories are good:

- Mass merchandisers and automotive chain stores accounted for about 20% of the total retail import car parts and accessories market in 1981 and are likely to account for nearly 25% by 1990.
- Retail stores are the major outlets for universal-type products used by import cars: batteries, anti-freeze, oil, window washer fluid, car waxes, etc. Even the car owners who are oriented to buying OE parts from car dealers buy these items from chain stores.
- Chain stores are also important outlets for automotive accessories purchased by import car owners. However, these stores have lagged in sales of replacement parts for import car applications, accounting for less than 10% of sales.
- But, during the second half of the 1980s, these stores will achieve very rapid gains in market share of the import car parts business, rising to more than 15% of the market by 1990. The chief reason is greater attention to stocking, displaying, and promoting parts-for-imports.

In short, Frost & Sullivan identified chain stores as the fastest growing participants in this fast growth segment of the total aftermarket. Has the market developed along the lines that Frost & Sullivan predicted? Apparently it has.

Good For Some, Not For Others

At one parts importing and distributing company which concentrates on the chain store market for import car replacement parts, a vice president says, "The chain store market for import car parts has grown phenomenally. Our sales to this channel increased 500% from 1981." Moreover, looking to 1990, the company believes that its sales may be 500% higher than in 1986.

This growth has been great for the retailers who have participated in it. However, it has been a different story for the foreign car manufacturers, parts manufacturers, and the importer-distributors. They benefited from an undervalued yen in the 1970s. Now, with sharp increases in the value of the yen, their costs of landing Asian goods in the United States have risen sharply—and they can not raise prices without risking loss of market share.

On this point it is interesting to recall that Volkswagen was the leading producer of foreign cars sold in the United States until the value of the German deutsche mark rose so high in the 1960s that the VW ceased to be a bargain. At that point, an opportunity opened up for the Japanese cars. Perhaps, bearing this experience in mind, Japanese exporters and domestic importer-distributors are determined not to lose market share, even if it means accepting lower profits resulting from shrunken margins.

The situation has forced importers to become even sharper on sourcing, finding new sources to meet standards. In terms of importers' sales programs, a great deal of effort and money is going to attractive, consumer-oriented packaging.

Part Numbers And Customers

The store are stocking merchandise for imported vehicles in a very sophisticated way, learning about local vehicle registrations and concentration on the faster moving items such as filters and ignition parts plus the faster moving hard parts such as starters, alternators, water pumps, brake pads and shoes, and hydraulic parts.

But, won't some customers for a Saab water pump go to the car dealer or an import specialist jobber if, as is likely, the chain store doesn't have it now?

One imorters says, "Undoubtedly many customers will not wait. However, it is far better—and more profitable—to say, 'We can get it for you tomorrow by UPS'—than to say 'Sorry. Try Joe's Foreign Car Parts down the street.' "

Catalogs And Displays

The two big questions about retailing import car parts are: Should there be just one catalog—or several? And, should parts for imports be lined up on one wall—or intermingled with domestic parts regardless of car make?

One company does both when it comes to catalogs; there's a master catalog listing all of its 10,000 SKUs plus separate catalogs for various lines which can be hung at the point of sale or kept on the parts counter.

As for import car parts display, there are two schols of thought, but retailers vacillate between them. One leader puts it this way: "Two or three years ago I was a lot more certain than I am now that the only way to go is to have a 'Wall of Imports.' What's happened since then is that I have seen a number of chains which are successful using the other approach. That is, all parts for the same function grouped together regardless of make.

"We used to talk about 'Making the Statement' that the chain is in the import car parts business. The 'Wall of Imports' was supposed to do that. However, what really makes the statement is servicing the customer. The biggest part of the statement consists of having the part in the store or being able to get it very quickly."

Fine Tuning Inventories

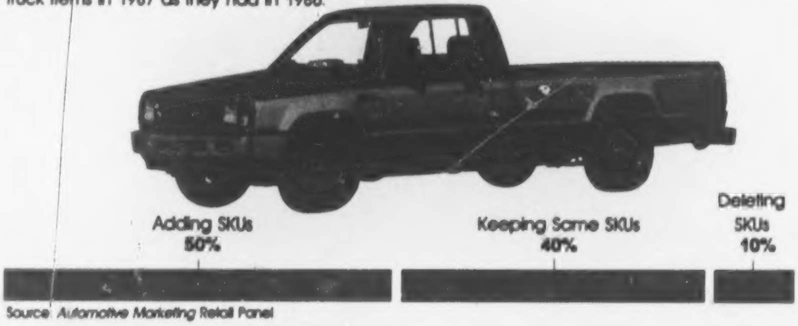
One of the problems traditionally associated with the import car parts market is slow turnover. It may be a super-fast growth business, yes—but when are those Isuzu brake pad customers coming?

Well, obviously checking local vehicle registrations is crucial. While some chains fail to do their homework, others do it quite well.

One Mid-Western chain, in a

ADDING, DELETING LIGHT TRUCK PRODUCTS

We asked our retail panel if they planned to add, delete, or keep the same product mix of light truck items in 1987 as they had in 1986.



Source: *Automotive Marketing Retail Panel*

relatively thin market for import parts, groups import parts together. Chain stores typically devote one finely tuned gondola to import car items, about 60 sq. ft. of space out of a total of 2,000 sq. ft.

A chain executive says, "We serve a nine state region of the Upper Midwest and Far West in which registrations of import cars and trucks are thin—about 8% of total. However, we do have some metropolitan areas and college towns in which registrations are quite a bit higher. For these reasons it is hard to have identical assortments in all our stores.

"In addition, most of our stores are franchises. The owners look to us for advice—but if we give them wrong advice on what to stock, they might turn to other sources.

"For these reasons we concluded that we have to offer highly customized recommendations on import car parts inventories. Our supplier offers general recommendations on assortments based upon analyses of registrations in our market as a whole.

"We take these recommendations and modify them for individual stores, taking into consideration import vehicle registrations in their areas and the amount and type of competition. For example, if we find that a Subaru dealer is doing particularly well in a store's market, we might recommend increasing the proportion of parts stocked for Subarus," he adds.

Import And Performance?

The market for import car parts and the market for performance/accessory items are both fast growth segments. Is there an overlap? Chuck Blum, president of the Specialty Equipment Marketing Association (SEMA), says, "That's a good question. We wonder about that ourselves. To the extent that we have had joint trade shows of SEMA and Auto Internacional Association, it has been a successful marriage."

It seems that a substantial number of retailers interested in either of these specialty markets is likely to be interested in the other. A common element is demand for customizing products such as specialty tires, wheels, louvers, racks, spoilers, air dams, sports car "bras", sun roofs, etc. These appeal to both the owners of domestic and foreign sports cars, sporty two-door cars, small pick-ups, vans, and 4-wheel drive vehicles.

John Duke, executive director of the Performance Warehouse Association (and a former BMW mechanic), has some definite ideas on the question of an overlap between the performance and import car aftermarket. "In the past, there wasn't much overlap because the customers were so different in age, background, and automotive interests.

"Our guys tended to be young, lacked college education, and were interested in customizing big, powerful American mass-market cars—primarily Chevrolet and Ford V-8s.

"In contrast, the owners of import cars—especially the higher priced European cars—tend to be middle aged and college educated. They tend not to feel comfortable associating with performance enthusiasts or patronizing performance retailers." Duke sees these owners as the natural patrons of import car dealers, import specialist garages, and in certain markets, import accessory boutiques.

However, putting aside owners of upscale import vehicles such as BMW, Mercedes, Maserati, Lamborghini, and the like, there will be more of an overlap between the performance market and the import car aftermarket because performance enthusiasts are now customizing Japanese vehicles, in particular, small Japanese pick-up trucks. Some observers see these vehicles representing to the performance market of the 1980s and 1990s what big block Chevvies and Fords represented to the market of the 1960s.

The Performance Market

According to Blum, the performance market had sales of around $2 billion at the factory level in 1986. At the retail level, sales were probably in the area of $4 billion. SEMA includes 40 separate product categories in its definition of the market. Blum notes that performance tires and custom wheels account for a substantial percentage of total sales of the market.

Because of a void of reliable information on the purchasing practices of consumers and distribution trends in this market, SEMA commissioned a comprehensive study by Lang Marketing Resources, Inc. The study involved research at the levels of consumers, retailers, jobbers, performance WDs, and manufacturers. (For information on the report, contact SEMA, 11540 E. Slauson Ave., Whittier, CA 90606.)

The study shows the average specialty equipment manufacturers increased their sales at the annual rate of 11.6% in the 1981-85 period. The SEMA report

PRODUCTS GO TO MARKET

notes that this was more than twice the growth rate of the total automotive aftermarket during this period. Moreover, these manufacturers expect their sales to increase by about 11.2% per year in the 1986-90 period—about two-and-a-half times the growth rate expected for the aftermarket as a whole.

Consumer Profiles

The SEMA report identifies three categories of end users by what they spent on specialty products in 1985:

- Light Buyers spent less than $500.
- Medium Buyers spent $500 to $1,000.
- Heavy Buyers spent more than $1,000.

SEMA's Blum notes, "We found surprising develoments by age group of consumer. Traditionally, consumers in the 18-24 years old group have been the most important segment of the market—especially for 'heavy' DIY purchases of high performance hard parts. This segment of the population will decline in the 1990s. This may adversely affect sales of the speed shops catering to the heavy buyers.

"We found comparatively smaller purchases of specialty equipment among consumers in the 25-34 and 35-44 years old groups. That was not surprising. Traditionally, they drop out of the market as they acquire family responsibilities.

"What was really surprising was the resurgence of the 45-54 years old group. As their children move away, they have more discretionary income to spend customizing their cars and trucks. They are coming back in a big way for cosmetic accessories including such big ticket items as louvers, spoilers, and air dams. What is important about this development is that over the next few years this segment of the population will grow."

Blum thinks that this demographic change is likely to increase the number of medium buyers. These buyers tend to spend more money on customizing accessories than on high performance hard parts. The older, more affluent buyers in this group are likely to have their accessories professionally installed. This will open up a competitive opportunity for retailers who provide installation.

Light buyers include DIYers who are not racers or street performance enthusiasts or customizers. Some car owners, very properly, equate performance with high quality and long life. The rationale seems to be, "If this product is good enough to stand up to racing, it will certainly give me more reliable service."

Do-It-Yourself Activity

Not surprisingly, specialty equipment consumers are heavy DIY customers. The SEMA study found that nearly 90% of the specialty equipment consumers are DIYers compared to only 35% of the total automotive aftermarket. SEMA found that DIY activity increases with annual purchases. That is, the larger the consumer's annual purchases, the more likely he was to do the installation himself. For example, over 90% of consumers purchasing more than $1,000 of specialty equipment annually did the installation themselves compared with only 83% among those spending less than $500.

DIY activity is inversely related to consumer age; activity is high among the young and drops with increasing age. While over 92% of specialty equipment consumers under 21 years old are DIYers, DIY share drops to 79% among those 35 to 39 years of age.

The report also analyzes outlets patronized by light, medium, and heavy buyers. Not surprisingly, the heavy buyers are the largest group patronizing performance retailers and speed shops, including their mail order operations. The specialty equipment consumer will wait, if necessary, to get an item he really wants. Trends among performance WDs include: retail outlets, mail order, and feeding chain stores on "B & C" numbers.

What are the buying factors in the performance market? Of specialty equipment buyers, 8.1% name product selection as the factor most influencing where they shop, followed by 7.8% for brand availability, 7.2% for price, and 6.3% for store appearance and convenience.

Selling Professional Mechanics

There is more cross-over in the automotive aftermarket. The trend of jobbers selling retail has been much discussed. Now it is time to talk about a trend among some automotive retailers toward aggressive promotion of sales to professional mechanics.

How could volume retailers compete with jobbers in selling professional mechanics? Partly because the chain stores have more convenient hours of service, including nights and weekends, and partly because automotive chain stores are willing to carry full lines of ignition parts. Some also hire outside salesmen to call on them, extending credit to some accounts, and, more recently, provide delivery service to dealer accounts.

Volume retailers can be separated, in terms of the professional installed business they seek, according to the coverage of applications they are willing to provide. For example, some chains, including discount stores which are not heavily automotive, are pursuing a short line approach. They may offer products of OE quality or cheap imported look-alikes. Automotive chain stores, on the other hand, are likely to offer full coverage of applications and to have at least one line which is of OE quality or better. Finally, some automotive retailers carry both a "street level" (OE quality line) and a high performance line for the customer who wants top quality and is willing to pay for it.

There are a lot of products and markets to consider in stocking an aftermarket volume retailer store or chain. And they all have to be weighed to produce the most profitable mix. ■

EXPANDING RETAIL OPERATIONS

Expanding a retail business takes more than money and a good location. It takes financial knowledge and careful planing.

[redacted]

So it's time to consider business expansion. Perhaps it's time to open a new store, franchise a current operation, or go public and sell stock. Before the balloons are ordered for the celebration, there are lots of considerations to be pondered and decisions to be reached. Only if all the pieces—the financing, the site, and the promotion—fit together will expansion be a success.

Looking At The Pieces Of The Puzzle

Every retailer seeking expansion has a different set of puzzle pieces to match in order to form a complete picture of success. There are, however, a half dozen interlocking pieces that must be in order for successful expansion. They include:

- **A report card on the financial health of the current operation, a plan of action for financing expansion efforts, and an overall business plan.**
- **An honest answer to the question, "Does the market really need another new store?"**
- **A profile of the "ideal" market for the new store. This is just as important for expanding a current trading area as it is for opening new trading areas.**
- **A profile of the "ideal" site for the new store. Again, this is important both for expanding current trading areas and for opening new ones.**
- **A profile of what and who is going to be in the new store: fixtures, inventory, staff, and yes, customers.**
- **And finally, a system for promoting the new store. Not just the grand opening, but day-to-day promotion to make the new store a success.**

In other words, a strategic plan is necessary to guide retailers through the expansion efforts. Everything they do from selecting a site to selecting the merchandise mix should be based on a strategic plan.

Where Is The Business Now?

The first step in the strategic plan is to take a long hard look at current finances. A store-by-store, item-by-item audit will show where the money is going now in order to best decide where to put it in the future. Spot weaknesses; shore up strengths.

Once that is done, remember, no matter how good expansion looks, it is not a solution for a sagging ROI. Maximizing ROI on current business is essential before expansion.

Expansion takes lots of money. A company should be on solid financial footing before doing anything and have a budget for everything. Our chart shows the estimated start-up costs for an average aftermarket store.

An Introduction To Finance

Financing business need not be intimidating. A few elementary concepts can begin to demystify the process. Here are some basic definitions:

Money. Money is a commodity. It is traded on the market more than gold or wheat or any other commodity. Billions of dollars worth of equity shares are bought and sold every business day on stock markets. Large corporations and financial institutions issue debt instruments worth hundreds of millions daily.

There is nothing mystical about the financing process. The entire secret lies in knowing what kind of money is needed, whom to approach in order to obtain some, and how to approach them. "Creative" financing is nothing more than adding the right characteristics to a financial instrument to meet the needs of the business.

Debt and equity. There are basically two kinds of money to put into business—debt and equity. There are many ways to package exotic financial instruments, but in essence they all will be related to, or convertible into, a more simple debt or equity instrument.

Debt and equity have many similarities. They can both be used for any purpose. They can both be used for unforeseen events. Both can be used for working capital to pay anxious vendors. Both lenders of debt and investors in equity expect a return on the money that they might put into business.

But there are ways in which debt and equity are quite different. Debt involves a lender making a loan to the business. Debt is generally characterized by a stated repayment schedule and a specified interest rate. The primary right of the lender is that he be repaid according to schedule and receive interest.

In addition, the lender usually asks for other rights while the loan is outstanding to provide reassurance that the principal is safe. For instance, the lender might ask for regular financial statements which must meet certain tests. Sometimes a lender asks for a security interest or lien against some of the borrower's assets as collateral for the loan. However, a lender has no claim to the business itself so long as the rights he was assured of during the course of the loan are taken care of.

Equity's characteristics are in many ways the opposite of debt's characteristics. An equity investor is investing in the business instead of lending to the business. The investor is purchasing a piece of the ownership of the business for anu one of several reasons.

At the time of the investment, however, he knows neither when he will get his money back nor what the overall rate of return will be. He realizes, too, that, depending on the success of the business, he may get all of his money back in a year or have to wait ten years for it. Or he may lose it all if the business fails.

The equity investor is entitled to a voice in the company's business decisions. He has a voice in the business because he now owns part of it. The "voice" or rights could vary from those of a full partner to only the right to cast a vote for a member of the board of directors. But an equity investor does have some voice, whereas a lender may not.

Financial Transactions

Getting someone to provide money for business is a financial transaction. Many of these transactions are similar to obtaining a mortgage to purchase a home.

Whether debt or equity, all financial transactions have those same characteristics. The lender/investor will provide money for a specific purpose. Depending upon the purpose, the lender/investor will have specific criteria that the transaction must meet. And the transaction must enable the lender/investor to make a profit.

The buyer of money should focus on how to get the cheapest money available. And "cheap" does not only relate to lower interest rates. The price of money includes all of the economic benefits and other related rights. A lower interest rate for debt with onerous lender's rights—such as detailed reporting and auditing requirements—could be considered more expensive than a loan which had a slightly higher interest rate with more acceptable lender's rights.

All things considered, the borrower still wants the least expensive money available to his objectives. Not counting any money from grandparents, the least expensive money is most often debt. Debt is less expensive when the lender believes that a loan will be exposed to very little risks.

Excluding a loan shark, the most expensive money is private equity. Private equity is equity which is not traded on an open market such as a stock exchange. Without an open market, an investor in private equity may not have an easy way to sell his investment. That complication greatly increases his risk and results in his expending a greater reward.

NEW STORE START-UP COSTS

The estimated average start-up costs for a new automotive parts store are listed below. Actual costs will vary depending on site location, degree of needed improvements, square footage, and service equipment. The costs listed are for a store which averages between $160,000 to $225,000 in parts and service sales volume per year.

Inventory	$56,000
Lease hold improvements	$7,000
Fixtures	$10,000
Supplies	$3,000
Cash register	$1,000
Advertising (signs, media)	$6,000
Insurance	$1,500
Equipment	$2,000
Rent (3 months)	$3,000
Working capital (3 months)	$12,000
TOTAL	$101,000

Source: American Institute of Small Business

Making Preparations

So, how does a borrower obtain the money needed at the lowest cost and on the best terms? Preparation precedes approaching the lender/investor. Preparations begin by putting on the lender's/investor's hat. The borrower should ask himself the same kinds of questions that a lender/investor would ask:

- **How much is needed?**
- **What is the money to be used for?**
- **Does the company have a proven credit history?**
- **Will repaying the money plus interest be a burden to the company?**
- **How fast can the money be repaid?**
- **Has the company's recent and past several years' performance demonstrated more than sufficient cash flow to pay off the money?**
- **What differences will this money make to the business?**
- **Will the money be used to acquire assets which can be resold to repay the money if you can not?**
- **Is other collateral available?**
- **Will the money enable the business to grow in a fashion similar to previous growth?**

Writing A Business Plan

It is increasingly common that any fund-raising effort will require submission of a business plan. A business plan is a document that sets out a company's plans, shows that the plans can be achieved, and demonstrates that the outcome satisfies the requirements of the lender.

The process of preparing a business plan requires a thorough evaluation of the company. Some companies may have the resources to prepare their own plan. Others may require some professional assistance. Either way, the plan needs to be written with the concerns of the lender/investor in mind.

The evaluation process should enable the comapny to determine what its financing requirements are and to understand what type of financing will meet its needs. The evaluation should also help clarify what risks a lender/investor would perceive in the business. By anticipating his concerns and addressing them, the company can present itself in the best possible light.

For example, although it's desirable to get the cheapest money possible, it might be that debt is

EXPANDING RETAIL OPERATIONS

not appropriate. Debt requires scheduled payment of interest and repayment of principal. Maybe the business plan indicated that the business will not generate enough cash to make those payments. Perhaps the planned growth will require reinvestment of all of the money made by the business into inventory for several years. If so, where would the money to pay interest and repay principal come from?

A business like that will therefore require an injection of equity money in order to meet goals. A well-prepared plan would be a real asset in seeking equity. Private equity is not only very expensive; it is also difficult to obtain unless the plan shows the investor that the comapny is worth the risk and the wait.

Another alternative would be an evergreen or revolving loan. Such a loan would only require regular interest payments. Principal payments would be optional during the term of the loan. A loan of this type would be collateralized, perhaps by a lien against inventory.

On the other hand, if repaying the loan according to a set schedule is suited to the business plan, then a term loan (set for a specified number of months or years) might be the answer.

The process of shopping for the right financial instrument is not unlike a customer's shopping for the right merchandise in a store. Sometimes the customer thinks that he "sort of" knows what he wants; sometimes he knows exactly what he wants. Often, the customer knows what he is trying to accomplish but needs a little help to figure out exactly what he needs.

The key to choosing the right kind of financing is understanding how financing would affect the business. Then a business staff can pick out the best features among available options.

Franchising

One option to consider when expanding is franchising. There are three basic types of franchises: straight product distribution, product license, and trade name. Here's how they work.

PORTRAIT OF TODAY'S AUTO STORE

We asked our Retail Panel members to give us an idea of what the average auto store looks like today. Below is what they told us. It is interesting to note that some 63% said they had plans to build a new store, just like the one thy have now, in the future.

% who agree that today's auto store:	
Is between 2,000 and 6,000 sq. ft.	56%
Is located downtown in a small town or city	51%
Has parking for 10 to 30 cars	58%
Employs between 2 and 5 full-timers	65%
Employs between 0 and 2 art-timers	58%
Has no service bays	57%

Source: *Automotive Marketing's* 1986 Retail Panel

Straight product distribution. This type of franchising provides an outlet for a specific type of product being sold. The purpose of this type of franchise is to get the company's product into more stores. If private label parts are a big percentage of the business and if the profit-to-product ratio is good, it is possible to capitalize on this.

Product license franchising. Under this arrangement, the franchise actually produces, manufactures, or modifies a product, and uses the manufacturer's trade name, expertise, and marketing. This is what the fast-food restaurants do.

In the case of an aftermarket store, franchisees would buy the private label parts to use for service. They would also pay for training their mechanics and organizing their shops. Supervision comes from the franchisor.

Trade name franchising. This is where the franchisor licenses his trade name but exerts little or no control over the product or service.

The Benefits Of Franchising

There are six primary benefits of franchising for the franchisor. They include:

Expanding with franchisees' capital: By franchising, the capital necessary for expansion comes from the franchisees. This frees company capital for other purposes.

Gaining new and constant revenue sources: Depending upon the terms of the franchise agreement, ongoing revenues can be collected for such things as sales, materials and supplies for inventory, management assistance, or renting or leasing equipment or fixtures.

Setting policy: Since the terms of the franchise agreement are in the hands of the franchisor, regulations can be set to protect company policy. These regulations control the purchasing of goods, store appearance, information reporting, payment dates, and anything which might affect the franchisor's well-being.

Providing motivation and incentive: Under normal circumstances, when a company expands, it does so by adding employees. These may or may not be loyal and hard-working. Under the franchise method, by offering ownership in exchange for specific privileges, the franchisee has the incentive to work towards success.

Minimizing financing: The sale of franchise licenses can provide the franchisor with funds necessary to expand and improve operations without the expense of financing.

Qualifying the franchise: By setting qualifications and standards, the franchisor is able to ensure the integrity and success of the operation. Not only is the franchisor able to select the individual with the best qualification; but he is also able to set standards of operation within the agreement which will give him control.

The Disadvantages Of Franchising

There are three primary disadvantages of franchising for the franchisor. They include:

Operations control: Without direct ownership, franchisors do not have total control. Without tightly defined procedures, and adherence to those procedures, company image and profitability can suffer.

Definition of the business: As the franchise operation matures, meeting the challenge of future markets requires strength and control. Since the franchisees are actually partners, not employees, disagreements about future direction or policy may arise. Concern about maintaining control over of the company requires dealing with many unpredictable variables.

Dependence on the strength of others: Even though great care and consideration is used to choose the franchisees, the franchisor still can find himself at the mercy of poor management. Under a company-owned operation, correcting this problem is simple. The boundaries defined by the franchise agreement must serve to protect both interests. As such, they may hinder and impede the resolution of problem management.

The Contract Is The Key

Although there clearly are problems associated with franchising, most of the problems are manageable through a well-structured franchise agreement. There is no such thing as a standard franchise contract. The contract outlines not only the restrictions but also the obligations of both franchisor and franchisee.

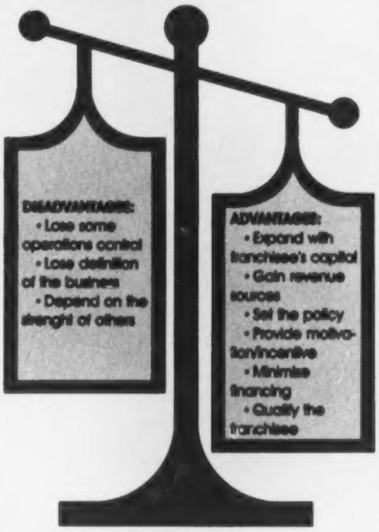
These obligations are clauses in the contract. Some of the clauses commonly found in a franchise contract include:

Term of the franchise: This deals with the length of the agreement and any renewal conditions.

Advertising: This deals with not only the franchisor's responsibilities in advertising but also the franchisee's contributions.

The physical plant: This establishes whose responsibility it is to develop the physical location of the store or outlet. If the property is to be leased, terms and conditions should be included to protect each party against the default of the other. Also, specifications of design, equipment signage, furniture, and fixtures should be clearly specified.

DISADVANTAGES AND ADVANTAGES OF FRANCHISING FOR THE FRANCHISOR


DISADVANTAGES:
• Lose some operations control
• Lose definition of the business
• Depend on the strenght of others
ADVANTAGES:
• Expand with franchisee's capital
• Gain revenue sources
• Set the policy
• Provide motivation/incentive
• Minimize financing
• Qualify the franchisee

Payments, fees, and royalties: This defines initial payments and any ongoing fees or royalties paid for services or as a percentage of sales. These payments are commonly based upon financial statements which the franchisee is required to provide at regular intervals. Included in this section is a schedule of due dates and the penalties incurred as a result of default of payment.

Supplies and materials: This outlines what products and operating supplies are to be obtained from the franchisor. This aspect of the agreement is very important when the product or service quality is tantamount to the operation of the business.

Product restriction: This outlines the restrictions on the types of products that may be added to the operation.

Operations: This includes the procedures and rules set forth by the franchisor to serve as a standard for all the franchises. Pricing, which must be kept competitive within the region the franchise is located in or standardized among franchises, is the most critical. Other criteria such as store appearance, operating hours, training, and hiring guidelines are potential additions to the contract if warranted by the type of franchise.

Assignment, buy back, or sale of the franchise: This area of agreement outlines the conditions under which the sale of equity or assignment of franchise rights can take place. This is very important to the franchisor in order to maintain necessary control of operations. Additionally, this provision permits future buy-back of stores to add to company-owned franchises.

Going Public

If franchising does not meet the company's expansion needs, it may want to try to go public to raise the needed capital. Going public is the process of selling stock in a privately-owned company to the investing public. Going public can be a viable means of raising capital funds, but it also requires compliance with stringent registration and securities regulations. Once stock is sold, the company is considered a public company, and its stock is openly traded on a stock exchange

Small to mid-size aftermarket companies are good prospects for going public if they have sound management, strong historical sales growth (20% or more per year), good potential for future sales growth (20% or more per year), total sales of $15 million or more, and net income of $1 million or more.

Advantages And Disadvantages

There are clear advantages to going public. These include:

- **A source of additional capital with generally unrestricted use.**
- **An improved balance sheet, which means increased borrowing power.**
- **Liquidity and market valuation.**
- **The ability to acquire other companies with stock rather than cash or debt.**

- **The chance to develop stock incentives to attract and retain employees.**
- **The business advice and expertise offered by an outside board of directors.**
- **Prestige.**

However, going public also has disadvantages. These include:

- **Expense of the underwriters' commission, registration, and other costs which can run as high as 10% of the total offering.**
- **The large investment of management time required for shareholder relations and meetings with security analysts.**
- **The need for greater earnings to avoid reducing per share earnings.**
- **The risk of management blame, litigation, and the inability to offer more stock if the market share value declines.**
- **The costly and complex reports required for the initial offering, and on a regular basis afterwards.**
- **The requirement of public disclosure of management salaries, of financial transactions between the company and management and/or affiliates, and of the identity of customers and vendors.**
- **A loss of management control and flexibility to and through outside directors on the board, proxy rules, and unknown shareholders.**
- **Increased liability to officers and directors by shareholder suits.**

The advantages and disadvantages of going public must be carefully weighed against those of raising additional capital through more traditional means such as borrowing.

Assembling The Offering Team

Once the decision to go public has been made, the key to a successful public offering is assembling the proper "offering" team. This involves selecting underwriters, accountants, counsel, and possibly new directors.

OBLIGATIONS OF THE FRANCHISOR AND FRANCHISEE

Franchisor obligations:

- Financial assistance
- Site selection and layout
- Equipment specifications
- Promotion and advertising
- Bookkeeping/accounting
- Product supply assurances
- Business operations manual
- Hire/train employees
- On-going support

Franchisee obligations:

- Maintain schedules
- Abide by store layout
- Obtain required insurance
- Obtain training
- Provide financial reports
- Provide working capital
- Devote personal effort
- Maintain buildings

The underwriters are critical to the offering team since they purchase the stock and resell it to the investing public. In selecting the underwriter, examine the company's distribution capabilities in, and its familiarity with, the automotive aftermarket.

Going public requires registration with the Securities and Exchange Commission (SEC). The registration process demands liability of the company in the event of material misstatements or omissions—despite good faith. For instance, an unintentional omission of a contingent liability or other financial information could result in litigation from outside shareholders.

For a successful offering, it is crucial to retain special counsel and accountants experienced in securities matters. Though loyalties exist toward long-term lawyers and accountants, a public offering requires skills that they may not have.

Selling The Stock

Typically the offering is sold by the underwriter during the SEC review period. After filing the registration statement, the managing underwriter forms a syndicate of underwriters. Salespeople within the syndicate distribute the preliminary prospectus and solicit orders. These orders are non-binding and may be canceled at any time before the customers receive a final prospectus. The number of shares and issue price are determined shortly before the statement is declared effective.

After the registration statement is declared effective, the final prospectus is printed, with the number of shares and the offering price. The underwriters send the final prospectus to their customers along with the confirmation of sale. A closing is held approximately seven days after the registration is effective. At the closing, the underwriters distribute the securities to their customers, and the sale proceeds are paid to the issuer.

After the public offering, the company is subject to additional disclosure and reporting requirements of the federal securities laws. These laws are extremely complex, and directors and officers should review all obligations and responsibilities with the company's legal counsel.

Alternatives To Full Disclosure

When deciding to go public, aftermarketers should also explore alternative methods exempt from SEC registration, such as exempt or Regulation D offerings. These may be more palatable to your management tastes. For example, exempt offerings avoid the costly registration procedures of the SEC, which can account for as much as 25% of the cost of issuing stock. These alternatives include intrastate and regulation D offerings. There are three types:

Type 1: Small offerings up to $500,000. There is no limit on the number and type of investors, but there are some restrictions on advertising and solicitation.

Type 2: Small offerings up to $5 million. There is no limit on the number of accredited investors, but there can be no more than 35 unaccredited investors. (The SEC has investor qualification standards that define accredited investors.) Advertising and general solicitation of investors is prohibited.

Type 3: Private placement with no limit on the offering size. There is no limit on the number of accredited investors, but there can be no more than 35 unaccredited investors. Advertising and general solicitation of investors is prohibited.

Where Is The Business Going?

If the operation is financially strong enough to expand either on its own or through one of the ways discussed above, the question then becomes where to locate the new store? It used to be that if a company wanted to expand, it just looked for an empty store front, put up a sign, and waited for customers. But in today's retail climate, smart aftermarket retailers think twice about opening a new store anywhere.

They realize that each new store in a given trading area means one more slice out of the pie. Even if the next new store is one of your own, it means a smaller slice for each of your stores. And each new store brings with it its own startup and operating costs. All of these are measured against the company's bottom line.

With that in mind, perhaps the best location for a successful new store is no location at all. Some retailing experts believe that there are more stores than customers in certain areas of the aftermarket. However, what is important is not whether the aftermarket is overstored but whether the specific corner chosen for expansion is overstored. A review of all competition in the chosen market will tell.

To Market, To Market

If the proposed expansion is into a new market, the first question that usually pops up is, "How big is that market?" Often, it doesn't matter. The size of the new market is in many ways the least important thing about it. What absolutely needs to known can be broken down into three parts: people, competition, and cars.

A big market demographically is only good if those millions of households fall into the categories that would be shoppers. And that is only good if other retailers have not already out-flanked a new store. Small demographic markets should not to be overlooked if they are the way to profitably expand the chain. Finally, the cars in the chosen market impact on what type and how much product is carried in the new store.

FILING WITH THE SECURITIES AND EXCHANGE COMISSION

All companies issuing securities are subject to the federal registration provisions of the Securities Act of 1933. Each state also has regulations on the sales of securities, called "Blue Sky" laws. Registration is the formal process of filing documents with the SEC and state regulatory authorities to permit securities to be sold and traded.

The registration statement includes extensive information about the nature and history of the business, its management, and its intended use of funds, and several years of audited financial information. The registration statement has two parts: the prospectus, which is the selling document; and supplemental information, which is available for inspection at the offices of the SEC.

Preparing a registration statement begins once the public offering team is assembled. The team holds a meeting to identify who will complete the various sections of the statement and it creates the timetable for each section's completion. After the statement is completed, it is referred to as the preliminary prospectus or "red herring" and it is filed with the SEC. The red herring is filed without the offering price or the number of shares to be sold.

Registration statements are reviewed by the SEC to determine whether the disclosures are adequate. Each registration statement is reviewed in detail by at least two SEC staff members, an examiner and an accountant. Special attention is paid to the financial statements. The review process generally takes 30 days.

After the review, the registrant receives the comment letter from the SEC. The review almost always finds some deficiencies. Comments may require substantial changes or in-depth explanations to the SEC staff. Once all deficiencies are corrected, the registration statement is filed in complete form and automatically becomes effective 20 days later.

To avoid costly delays, the company's financial officer and the offering team professionals who assist in preparing the registration statement, particularly the financial portions, must thoroughly understand the review and comment process.

Now the business is ready to select a specific site for a new store. But again, all the needed information should be there before a decision is made. What information is needed to know for the market, is needed to know for a site in that market.

In addition to people, competition and cars, knowledge of several other factors is needed before money goes down. Things like how the local zoners feel about service bays. Things like current and future traffic patterns.

Once You've Arrived

Once a market and site have been chosen the site, there are still other decisions to make such as: build a new store or lease and remodel an existing one; bring in a crack opening crew or hire all new personnel; spend the lion's share of your opening budget on equipment or fixtures; concentrate the inventory on domestics or imports or both. At this point the company needs to review its strategic plan.

There is one final thing, something that often gets overlooked after the grand opening hoopla is past. A new store needs ongoing promotional support to be successful. Some members of our Retail Panel said they keep up special new store promotional support for as much as a year. Most retailers agree that it takes at least six months to a year's worth of promotion after a store is opened to keep it successful. A very common complaint of retailers who have expanded is that it took their new stores longer than they planned to become self-supporting—because they pulled out the support too soon. ■

CONTROLLING OPERATIONAL COSTS

More than anything else, controlling operational costs means more dollars at the the bottom line.

When retailers face difficult times, those who prosper are the ones who best manage their operations costs. A major opportunity for improving profits comes from reducing these operations costs. Almost nowhere else can savings be so highly leveraged as in the store operations area. Even a small improvement at the store operations level can add significantly to bottom line profits, especially when the results are carried across an entire chain.

Four major areas for improvement in store operations cost controls are:

- **Use of staff,**
- **Controlling shortage,**
- **Controlling inventory**
- **Controlling insurance costs.**

Staff Utilization

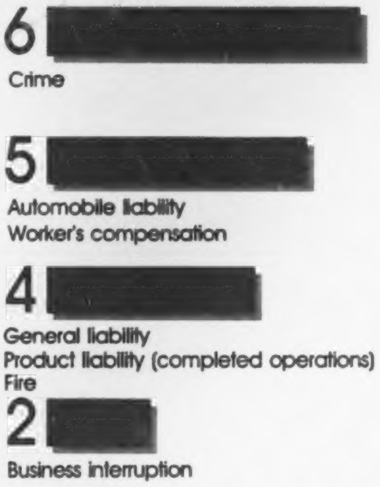
Personnel productivity is one area in which store operations affects profitability. For example, if stock help isstraight-scheduled and shipments come from the warehouse twice each week, there may not be enough help to deal with the peak loads of incoming shipments. As regular sales help pitches in to deal with the incoming merchandise, customer service drops.

Therefore, scheduling the right number of people in the store at the right time and in the right area can mean a maximum return from sales with a minimum of salary expenses. Poor scheduling can quickly burn up payroll dollars while generating little return. Again, the effort is felt directly on the bottom line.

Another routine area for store operations is the display of merchandise. Most chains today have at least a generalized set of instructions for how the store should be merchandised. However, store managers generally have some discretion on how the store is set up on a day-to-day basis. There is no doubt that stores that are set up properly and merchandised in an attractive manner produce more sales. To the extent that planograms are not followed, SKUs may not be represented, stockouts may occur, and shortages can result.

AFTERMARKET BUSINESS: A MEDIUM RISK

Aftermarket retailing is a medium risk business when it comes to various types of insurance coverage, according to A.M. Best Co.'s hazzard index.



1-3 = Low, 4-6 = Medium, 7-9 = High, 10 = Very high

Source: A.M. Best Co.

Controlling Shortages

In terms of shortage control, there is a direct link between store operations and the bottom line. Merchandise that is lost, stolen, or damaged increases costs and automatically cuts into profits. In many cases, shortages are really just poor control of paperwork. In fact, a recent study conducted by Touche Ross found that up to 20% of shortages reported by retailers was attributable to paperwork errors. Another substantial portion of shortages can be blamed on internal theft. However, whenever cashiers ring sales incorrectly, when markdowns are not recorded properly, or when transfer quantities or prices are not verified, shortages can result.

Inventory Control

In most environments, store operations personnel have a major impact on the level of inventory and the timeliness of shipments of goods. For example, if shipments are not delivered on time, if inventory is too low, or if too many out-of-stocks occur, the results are lost sales dollars. If the merchandise is received after peak selling periods, unwanted inventory, and even out-of-season goods, can sit in the stockroom, tying up much-needed capital and draining profits. By the same token, shelves that aren't filled or displays that are not kept neat typically result in lost sales. Have enough of these occurrences, and customers won't come back.

One way to manage inventory operations costs is to develop a network of local suppliers.

Local Supply Networks

Local suppliers can provide a profitable means of inventory control for some kinds of retail operations. These suppliers may include the local WD or rack jobbers. Local, rather than national, WDs may be a good source for products. Rack jobbers, who will take orders for individual stores, fill the shelves, and rotate the stock as needed, can also be a good source.

For other retail operations, however, it makes sense to warehouse items centrally and deliver them to the stores on an as-needed basis.

The Inventory Problem

Most auto parts stores have a conflicting set of goals: They want to carry a broad assortment of parts and accessories and have enough stock to satisfy the customer, but they don't want to carry so much stock that the inventory becomes obsolete on the shelf. When you consider that the number of items a full line auto parts store carries is often more than 10,000, it quickly becomes apparent that smart inventory control should be a primary objective.

Studies performed by Touche Ross indicate that it is not uncommon for the annual sales of any particular item to average less than one unit per month, particularly in the hard parts area. Other items, such as oil and antifreeze, have extremely high rates of sale. The primary problem comes down to having the right quantities of the right items at the right times.

A second problem is controlling the costs of shipping and handling merchandise. In many firms, stores receive shipments once, twice, or even three times each week depending on their volume. With each shipment received, double handling takes place—first at the warehouse, then at the store. The handling costs incurred can be very high, particularly for high volume/high bulk items such as batteries and antifreeze.

A third problem is created by small, impulse items such as visor mirrors and decals. These are frequently low velocity items. They are also laborious to count, mark, and fill in. Because of the difficulty of keeping track of these types of items, out-of-stocks frequently occur. Or, if such an item is out of stock, something else is put in its place and the missing item isn't reordered. Sales are lost.

Today's retailers are solving these three inventory problems, and controlling the associated costs, in a systematic manner with a variety of solutions.

Developing Solutions

For very good reasons, most auto parts chains have developed a central warehouse facility to help control inventory and distribution costs. In most instances, this approach makes a great deal of sense. Because of the relatively low incidence of sale of most items in the store, and because of the very large number of items carried, it is generally much more economical to order centrally and restock the stores based on actual sales.

Solutions: Store Order Quantities

The decision to warehouse or to use local suppliers depends on a variety of criteria.

If a store typically orders less than a case quantity of an item, it probably makes more sense to maintain the item at the warehouse. By allowing the stores to order in single units, the store has less of a burden in terms of inventory level. This is especially appropriate for hard parts,

RETAILERS AND PRODUCT LIABILITY

While manufacturers grappling with the product liability "crisis" grab headlines, retailers, too, face a product liability hazard.

Just who is responsible when a product fails, the retailer who sold it or the manufacturer who produced it? Several insurance experts including Fred Austin, spokesman for Federated Insurance Co.; Harvey Seymour, spokesman for the Insurance Information Institute; Jerry Vertin, director of mass merchandising for Sentry Insurance Co.; and Robert Montgomery, vice president of the American Association of Insurance Services; responded to that question.

"Normally, though the retailer may be named (in a product liability suit), he stands behind the protection of the manufacturer. That is, the manufacturer almost always assumes the responsibility. The manufacturer is the retailer's first defense," Vertin says.

"The lawyers will name everybody to a suit. But unless the product has been opened or otherwise damaged by the retailer, the manufacturer pays. If there has been damage, the retailer may have to defend himself," Seymour says.

"The retailer's burden is not as great as the manufacturers. He is usually released from the suit unless he has changed the product," Austin says.

However, things may not go so easy for the retailer if the product is imported, if the retailer has his own label on the product, or if the retailer installed the product.

"If it's a foreign product, it is more difficult for the retailer. If the product is from a U.S. subsidiary of a foreign manufacturer, again the manufacturer would come first," Vertin says.

"If the overseas maker has a U.S. subsidiary, action would go against that. If not, it is possible that the parts place could get socked with everything," Seymour says.

The experts agree that there is a gray legal area where "service liability" ends and product liability begins. Since such cases involve state law, it is best to discuss any such questions with your insurance representative on a case-by-case basis.

Can a retailer reduce his liability risks on both domestic and foreign products? Yes, say the experts. Retailers should:

- Purchase products from reliable suppliers. Make sure the products do what they are supposed to do. Pay special attention to potentially dangerous products.
- Look out for products damaged in shipping. Never remove, or allow to be removed, safety labels, warning labels, warranty notifications, or the like from products or packages.
- Ask to see a certificate of insurance from foreign suppliers and wholesalers of foreign products. If a retailer is big enough, it can ask to be named on the manufacturer's policy as an "added insured."

In addition, retailers should check with their insurance agents when adding a new product line. Make sure the insurance covers it.

which can be ordered in pallet load quantities by the warehouse and shipped as units to the stores.

By the same token, tiny impulse items and various gadgets may sell in relatively high quantities. But because there are so many SKUs, it may not be worth the time of the store manager to count and reorder those items on a weekly basis. A number of firms have concluded that it is ultimately more profitable to maintain this business though rack jobbers. In many instances, the reduced gross profit percentage is more than offset by a better in-stock position and by increased sales. There is also the side benefit that the store manager can spend time doing more productive work than counting gadgets.

Solutions: Bulky Merchandise

Auto parts stores are blessed with the luxury of not carrying a lot of bulky items. Or are they? For companies doing a large tire business, tires certainly take up an enormous amount of space, particularly if several lines are carried. It is probably not realistic to carry a large quantity of this kind of reserve stock at store level. On the other hand, highly seasonal merchandise such as antifreeze can impose an enormous burden on warehouse facilities. While not technically bulky merchandise, the high rate of sale and frequent promotional activity requires that large quantities move through the distribution system very quickly.

One alternative is to rent off-site storage space to handle the overflow. If the space is needed only for a short time, the cost advantage of large volume purchases may warrant incurring the cost and inconvenience of off-site storage. While a local distributor might be able to provide more convenient service, the intense level of price competition on these items almost precludes the use of local vendors as primary sources of supply.

Batteries, however, are a different case. Most stores today carry an extensive line of batteries. With the high number of SKUs this requires and the uncertainty of demand, some firms have found it advantageous to allow stores to deal with local sources. Depending on the agreement with a local supplier, an adequate supply source of batteries to deal with sudden spikes of demand—heat waves or cold snaps—is possible. At the same time, scarce backroom space can be used for other items.

Solutions: Moderate Sales Volume

Merchandise with a steady but moderate sales volume is a good candidate for pooled stock. Sales of this merchandise are fairly easy to predict, and small unit shipments can be sent to the stores quickly enough to ensure that sales are not lost. This description fits the large majority of items that are carried by auto parts chains. However, for those chains with large enough stores, particularly high volume items warrant the consideration of using local suppliers. A prime example of this is motor oil. While oil is a prime volume item and traffic builder, it generates a very low margin, and is heavily promotional. In this instance, the equation may favor using local delivery. Consider these factors:

- **Oil is bulky, and very heavy. Its high sales volume increases the allocated shipping costs to the stores.**
- **Oil takes up valuable warehouse space. Storing it may reduce the headquarters buyer's ability to take advantage of special deals.**
- **Warehousing oil may incur a double handling charge—once at the warehouse and once at the store.**

The decision to buy oil locally is not simply an evaluation of the 100% losses, the losses that will put business under that you need to be covered for, insurance experts say.

Establishing a priority of losses saves a lot of time, money, and heartache. Those things that would put a company out of business, like a fire or the death of a partner, are the things to insure for.

Beyond the worker's compensation and health insurance packages that are standard for all types of business, there are three more types of insurance every aftermarket retailer should carry. These are:

- **Property**
- **Liability (general and product)**
- **Specialty Coverage**

Property insurance pays for buildings, fixtures, and inventory should they be destroyed totally (as in a fire) or in part. Property insurance should be enough to *replace* those items at their *current* market value. An annual review is important.

The difference between insuring business for 75% of its total replacement value or increasing coverage to 100% is usually "very small," according to insurance industry spokesmen. But 25% difference is important—it could keep a store in business.

Liability insurance, both general and product, is a hot topic these days. In the simplest terms, general liability (or bodily injury) insurance is what pays the hospital bills when that customer slips on that spilled oil, while product liability is what pays if a store or chain is found at fault in a product liability suit. Determining how much liability insurance, of all types of insurance, is the hardest. The retailer should look at how much it would take to put him out of business.

Product liability insurance needs vary according to exposure. For a detailed look at the special product liability needs of aftermarketers, see our story "Retailers and Product Liability."

Beyond property and liability insurance, a business may have its own special insurance needs. These can be covered by "specialty" insurance policies.

The most common "specialty" coverage is for business interruptions. If a business burns, property insurance will replace bricks, fixtures, and inventory. Liability insurance will pay any hospital bills. But what makes up for the lack of income during the rebuilding time? Business interruption insurance. Such coverage would also help if a sole supplier had a flood and was unable to deliver the products a store needed to stay open. Or if a point of sale computer system broke down to the degree that a store had to close its doors.

There are as many types of "specialty coverage" insurances as there are business contingencies. For instance, accounts receivable insurance covers losses for firms unable to collect funds owed due to the destruction of accounts receivable records. So-reduction in margin versus the cost of delivery. The decision should also take into account the major saving in space and what the cost of off-site storage would be. More difficult to quantify are the opportunities lost (on sales of other items) because X number of square feet in the warehouse is allocated to the storage of oil inventory.

Solutions: Inventory Control

A central location for company-wide inventory can provide better control. It stands to reason that a warehouse or distribution center with full-time personnel whose primary responsibility is controlling stock should have a more disciplined environment than a store with either part-time stock help or sales personnel aiding with marking and stocking shelves.

A Delicate Balance

Selecting the appropriate source for merchandise can be a difficult decision. For certain items, it can be more profitable to settle for somewhat lower margins to ensure a better in-stock position – generating higher sales with less total inventory. For these items, the local supplier may be the answer. By the same token, unless a local supplier can benefit from a steady demand for large quantities of bulk or low margin items, the tradeoff may be such that it is better to keep the replenishment function centralized.

In other words, pooled stock and localized supply are not mutually exclusive. The trick is to find the right combination that will minimize overall distribution costs and maximize service and profits to the organization.

Insurance As A Cost Of Operation

Another major operational cost of doing business today is insurance. Today, insurance is no longer a routine purchase. Large companies hire risk managers,

AFTERMARKET RETAILING: A RISKY BUSINESS?

In general, insurance companies do not consider aftermarket retailing to be a particularly risky business. According to the A.M. Best Co., which publishes statistical references and underwriting guides for the entire insurance industry, the average aftermarket retail operation is considered a medium risk business.

However, the risks do go up depending on the business. The risks go up if a retail store sells private label or imported merchandise, if it does repairs or installations, if it is located in a high crime area, and if "housekeeping" isn't up to par.

Each insurance company and each underwriter looks at each business individually. However, there are some points that underwriters industry-wide will look at. Retailers can help themselves by reviewing these points in their own risk management plan. Here, by insurance type, are some points aftermarketers should review annually:

- **Business Interruption.** Retailers should have back-up suppliers for all items (equipment and inventory) that they can not do business without.
- **Crime.** Retailers should have more than one employee on duty at all times. Standard precautions (frequent supervised deposit trips, locked safe and cash drawer) should be taken with cash and credit card slips. Are customers supervised, or can they wonder into stock, warehouse, or service areas? Are employees screened before hiring? Would alarms or other security devices be a good idea in your neighborhood?
- **Fire.** All flammable materials should be stored, handled, and disposed of properly. Fire extinguishers and smoke alarms should be inspected and charged regularly. Is electrical wiring adequate and up to date? Is a no smoking policy enforced?
- **General Liability.** Sidewalks and parking areas should be free of debris and well lighted. Aides should be wide and uncluttered. Shelving should be sturdy and not overloaded. Wall and overhead displays should be checked for stability. Are customers supervised, or can they wander into stock, warehouse, or service areas? Is there a regular program of maintenance/clean up for inside and outside areas?
- **Product Liability.** Retailers shoud be sure warning labels, safety features, and warranty information provided by suppliers remain with products until they reach the customers' hands. They should deal with reputable suppliers and ask to see their certificates of insurance. Keep records of all suppliers. Remember, a primary liability exposure exists if merchandise is sold under private labels. Are employees adequately trained to give advice or installation tips? Are they adequately trained to perform service? If repair/installation work is done, are thorough checklists and records kept?
- **Vehicle Liability.** If company owned vehicles are used for deliveries, drivers should be properly licensed and their driving records checked. If employees use their own vehicles, does company liability cover them?
- **Worker's Compensation.** Sidewalks, parking areas, loading areas, and service areas should be free of debris and well lighted. Shelving should be sturdy and not overloaded. Equipment and tools should be checked for damage regularly. Personal protective equipment and first aid kits should be available. Are employees fully trained in the safe operation of equipment?

who constantly evaluate their firm's exposures and insurance costs. Smaller firms can help their own insurance situation.

How? By establishing a three step insurance operations management plan. First, review of insurance needs. Second, reduction of risks. And third, shopping around for the best buy.

Review Of Insurance Needs

When fire destroys a store, when a new service technician disappears with the day's receipts, when a customer slips on oil spilled in the aisle, or when a product sold is alleged to have been faulty, insurance is what stands between a business and financial failure.

Is there enough insurance to protect a retail aftermarket business from failure? Probably not. Having too little or the wrong kind of insurance is the biggest worry most retailers have. And most don't realize it until it's too late.

Very few businessmen have enough insurance. Almost everyone can absorb small losses. But chances are those are the losses already insured against. It is the called fidelity insurance could make up for the receipts taken by that service technician.

Unlike personal insurance which is usually sold in standard "menu item" packages, commercial or business insurance is more like a smorgasbord of options. "Specialty coverages" allow businesses to pick and choose exactly what's needed.

Many aftermarket retailers fail to carry "key man" insurance. If the key man in a business—the owner, a partner, or another individual—dies, that business can fail. Partners and major stock holders should all have insurance benefiting each other (and the business) so the business can survive "cash flow" problems in the event of a death.

Insurance should be enough to protect a company from losses it can not afford to sustain. However, a company can end up with insurance it doesn't need—coverage protecting it from losses it can sustain—"plate glass" insurance.

Reduce Your Risks

Aside from insurance market conditions over which a company have no control, insurance rates are based on how risky the insurance companies think that business is. Luckily, the average aftermarket retailer does not present a unique risk.

However, aftermarket retailers are vulnerable in two areas: product liability and service. The more service done, the more risks taken. (Again, see our story "Retailers and Product Liability" for a discussion of the product liability issue as it relates to aftermarket retailers.)

Unlike product liability, where the manufacturer is the first line of defense, retailers who perform service are totally liable for the results of that service. There is a gray legal area as to where "service liability" ends and product liability begins when it comes to suits over installed products. Such cases involve state law, and it is best to discuss such questions with insurance representatives case-by-case.

Even retailers who do service can reduce risks. A quality control program in service bays helps. Service techs who use step-by-step checklists for each job help. Having the customer sign the checklist before releasing his car helps. Keep the sheets as records. Service supervision by managers and training for technicians helps.

When it comes to reducing risks, most insurance companies award "judgment" points based on what the underwriter finds when he looks at a business. These "judgment points" are not cast in concrete. They are up to the discretion of the underwriter and the company he represents. But a clean shop, a good loss history, well-trained and well-managed personnel will all count in a store's favor with almost any underwriter and/or company. And these are things which can be controlled.

Some risks can be eliminated entirely. For instance, too costly vehicle insurance premiums can be eliminated by eliminating that parts delivery truck if it doesn't earn enough money to make up for the premium. In addition to reducing risks, eliminating that "plate glass" coverage will save money.

Shopping For Insurance

Retailers should shop for insurance and an insurance supplier the same way they shop for merchandise—shrewdly. Experts advise retailers to look for a professional agent, adequate amount of coverage, degree of service, and lastly, price.

A good agent will take the time to review needs. And a retailer should give him the time, not just a quick conversation across the parts counter. An agent should be familiar with the business. Someone who regularly handles aftermarket accounts is ideal.

Again, due to the "smorgasbord" nature of commercial insurance, any independent agent should be able to offer a retailer the insurance he wants. An independent agent, in business for himself, doesn't work for just one company and offers a variety of coverages from several companies.

Apple to apple comparisons are crucial. Retailers who are not fulltime insurance professionals can get confused without these.

Retailers should shop for insurance like it is a service they are going to use—because they are going to use it. However, it's time for retailers to stop shopping for price. Insurance is too important to the survival of the business to treat in a "lowest bidder" fashion. Besides, if your needs are pinpointed and unnecessary risks eliminated, coverage should be more affordable. While insurance is not, and never will be, a profit center, proper management of this operational cost can result in a healthier bottom line. ■

EMPLOYEES ARE CHANGING

Retailers now are studying demographics from a different standpoint—that of their own staffing requirements.

[redacted]

In recent years retailers have become very conscious of demographics. They know all about the baby boomers and the greying of America. They do not build stores or plan merchandise assortments without consulting figures on who lives where and what the average disposable income is. Retailers use sophisticated methods to determine who their customers are and what those customers spend their money on.

While retailers have learned to use demographics to meet consumer needs, they now are studying demographics from a different standpoint—that of their own staffing requirements. And, what they are seeing disturbs them. They are seeing the pool from which they have traditionally drawn most of their employees shrinking. The number of Americans in their teens and early 20s is dwindling.

One has only to visit a fast food restaurant or supermarket or large discount store to see the problem boldly taped to the windows: "Help Wanted." The signs have become as permanent as the push-pull stickers. Some companies even offer bounties to current staff who recruit new employees who last three months on the job. To handle the Christmas crunch the last few years, retailers in one East Coast city bussed people in from outlying suburbs.

Numbers Tell The Story

Demographic information does not cause the problem or help to solve it, but it does show individual retailers that the problem is not theirs alone.

For example, between 1980 and 1990 there will be a drop of 19.7% in the 15-19 year-old category and 14.1% in the 20-24 year-old age group. Taken together, these two groups will show a drop of 16.9% from 1980 and 1990.

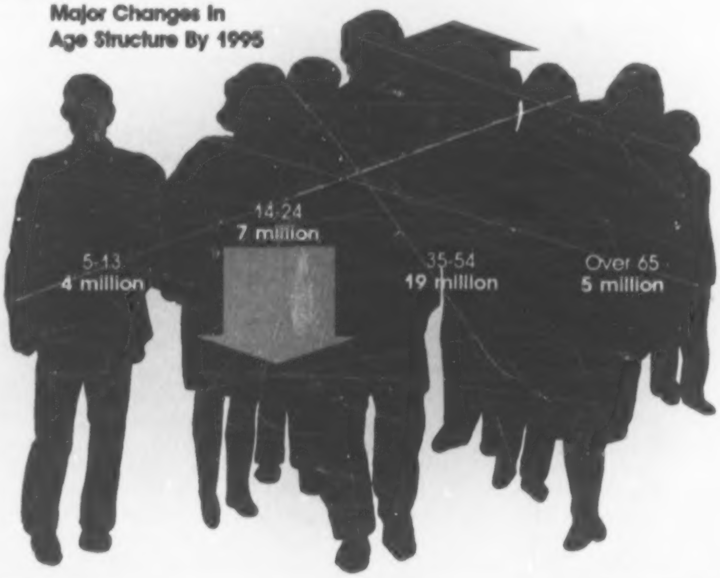
Besides the shortage of eligible employees, there are other factors making it difficult for retailers to staff their stores, distribution centers, and warehouses. *Turnover* is one of them. According to one study, the retail industry generally hires 20% of the total pool of young people. For roughly 75% of part-time employees many retailers report a separation rate of from 250 to 300%. There is a steady cycle of hire and replace. But with pool shrinking, initial hiring and replacement will be much more difficult.

Another factor in the problem is the *wage structure*. The long practice of minimum wage payments in entry level positions has hurt the retail industry and will continue to make it difficult to compete for a better educated (at least, degreed) employee. If other industries are offering more money, better fringe benefits, and more attractive work hours, why would a young person with a choice choose to go into retailing? Or to stay there?

Another factor shrinking the worker pool for retailers is "*computer mania*." Youngsters hear so much about the future of the country being in computers, that many of them are learning the computer. Youngsters who at one time may have considered retailing, or at least serving for a time, now move immediately

CHANGING DEMOGRAPHICS CHANGE EMPLOYEE POOL

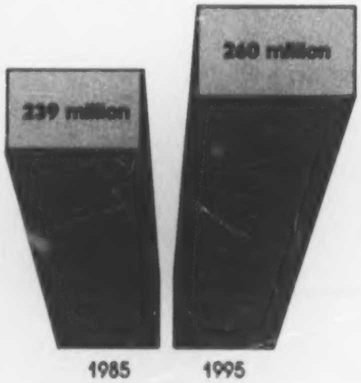
By 1995, the age of the population will have shifted dramatically, reflecting a more mature employee pool. The biggest jump will occur in the 35-54 age bracket, with a projected increase of 19 million people.



EMPLOYEES ARE CHANGING

POPULATION

The total US population will increase by less than 10% over the next decade.



POPULATION CHANGES

	1980		1990		2000	
Age Group	# in Thousands	% of Total Pop.	# in 000s	% of Total Pop.	# in 000s	% of Total Pop.
15-19	21,123	9.3	16,957	6.8	18,950	7.1
20-24	21,605	9.5	18,567	7.4	17,126	6.4
25-29	19,763	8.7	21,503	8.6	17,360	6.5
60-64	10,134	4.5	10,639	4.3	10,494	3.9
65-69	8,806	3.9	10,006	4.0	9,110	3.4

Source: Bureau of the Census

into other industries. With these people out of the pool, the competition for the services of the non-technical intensifies.

True, retailers are computerizing more and more of their operation, partly to counter the shortage of help. And while some people are needed to run these computers, those people are more likely to take higher-paying jobs in other fields.

Still another factor adding to the manpower problem is the *attitude* of today's younger people. With jobs to choose from, many will opt for those with evenings and weekends free. At a time when retailers are modifying store hours to accommodate customers who work 9 to 5, Monday to Friday, retailing's hours just do not suit the lifestyle of today's young people.

What To Do?

The problem is large, but there are solutions to consider (is there a choice?).

For starters, consider *changing retail pay scales* over time. At least, cut the differential between our scales and those of competing industries. Included for reconsideration must be benefits as well as salary.

To attract and keep good people serious attention to *career opportunities* must be given. This means the entire role of human resources will become more critical over the next 10-to-15 years. Novel methods of recruiting will have to be created to attract more and better candidates. Job candidates must be able to see career paths and potential for growth if they are to consider retailing seriously.

In addition, management will have to make a greater investment in *training*. Not only is training on how to ring up a sales needed, but also on more general areas. Employers may have to be the ones to deal with language and culture deficiencies. Without the option to replace a poor performer, retailers may be forced to do what's necessary to get a better performance.

Other solutions may be to hire more *older workers*. The 60 to 69 year-old group will grow by 9% from 1980 to 1990. Many of these people will retire early, with the intention of taking less demanding part-time positions. As a group, these are healthy, active people who have proven to be stable and loyal employees.

Some help is also seen in the waves of *immigrants* coming to the United States, particularly in the 16-24 age group. Besides the traditional points of departure, many of today's immigrants are coming from Vietnam and Thailand. But retailers may have to deal with language and cultural barriers in order to take advantage of this source of employees.

Another source of assistance for certain jobs might be the *handicapped*. Many organizations have found that individuals with mental and physical handicaps working in the right positions are extremely competent and loyal employees. Agencies which place the handicapped often can train individuals for a specific job and will provide retraining periodically if needed.

Women may be still another source of help. While women in the workplace is no longer a revolutionary concept, catering to their special needs may be. For example, well over 50% of women with pre-school children work outside the home. Many women may seriously consider a job simply because it offers fringe benefits to subsidize child care, or provides, perhaps with neighbor businesses, child care facilities.

Time for New Thinking

Retailing has had problems before and solved them, as it will solve this manpower problem. The solution will come, however, from people who recognize that when old ideas do not work, new ones must be tried. Some attempts may fail, but eventually the solutions will be found. The companies that work at the problem will be those to solve it and survive it.

A basic tenet of business is that a company's people are its most important assets. Too many managers pay only lip service to that principle until they find themselves strained by the inadequacies of their help. To survive the next decade, retailers will have to give at least as much attention to their employees as to their inventory and buildings. If they don't, the inventory and buildings won't matter. ■

MAKING SERVICE PROFITABLE

Service should equal profit. If that isn't true in your operation, here are some suggestions to turn things around so it does.

[redacted]

There are as many ways to mismanage a retail service operation as there are Chevrolets on the road. And about as many ways to do the job right. This section will help aftermarketers with service facilities, those not yet in the service segment, gain insight on ways to run an efficient, problem-free, and profitable service operation.

The Hidden Costs Of Service

Accountants will tell you that the costs of service can be seen in the overhead and salary percentages, compared with sales dollars for parts and service.

Maybe. But not entirely.

Those numbers give you an indication of service costs, but the numbers are rather poor indications of what does, and what doesn't, work to make service the financial success it can be.

The major hidden costs in service—the ones not shown on the balance sheets and financial statements—have to do with under-utilization and/or mis-utilization of equipment and people.

If the service hardware you buy, and the service technicians you hire, lose any time—it's profit lost. You will never recoup a lost minute the way you might be able to recoup a lost parts sale.

It is important to examine the factors, both hardware related and people related, that can get between you and a profitable service operation. Here are a few items to check.

The Hardware Factor

There's a lot of expensive diagnostic hardware on the market today. Cost, however, is relative. If a piece of hardware can do the jobs you need done, and produce a profit—fine.

The critical question is: Can it do the job and make a profit? If the answer is no, then any expense is too much!

Many service managers purchase a piece of hardware because the competition did. Don't believe that what other people do is good for you. Maybe—just maybe—they don't have the foggiest idea of how to run their businesses.

Take the time to find out the truth for yourself.

You must ask yourself these questions every time you consider a hardware purchase: What jobs do I need done? Can this hardware do the job? Does it do more than I need? Can I avoid paying for what I don't need?

You'd be surprised how often a less extravagant piece of equipment can do what's wanted.

So you bought it? So what? What if it doesn't get used? Too often management gives the shop the tools needed to do the job and just walks away.

This is not acceptable behavior. You must continually be on guard against the "dusty machine"—the one which gets shoved into the background.

This relates, very closely, to the lack of adequate management controls in your paperwork system. If you can't tell whether or not a piece of equipment is being used—how can you decide whether or not it is good or bad, or whether or not your men need more training?

You've heard horror stories about serviceability and service. Of course, you wouldn't purchase hardware without checking on whether or not parts are available, where they are warehoused or stocked, and who is trained to do the service, would you?

Would you believe 90 days to get a vacuum transducer for a diagnostic computer? With the factory just a few miles away?

If you purchase diagnostic hardware or other capital equipment, can it be expanded and adapted for future cars? Again, you'd be amazed how many shops don't look to the future in this business.

Unless you think car design is going to stagnate, you need to think about the next generations of cars you will service.

Obsolescence should be a major factor in your purchase decisions. And you should realize that depreciation rates exist (and will, even after tax reform) because hardware does get older, and will need replacements.

And finally, give some thought to dedication and flexibility. If you have a franchise oil change operation, go ahead and put in a pit. But a pit for alignment? Maybe. But probably not.

The problem of tying up valuable space due to equipment demands is becoming less of a problem as manufacturers make better use of remote consoles, data transmission, etc. But, it pays to ask the question: Am I going to lose flexibility because I elect to do a specific job or use a specific piece of hardware?

Dedication can be expensive.

The People Factor

If you are entering a new service area, or expanding in a familiar one, have you made allowance for training? Are the mechanics sent to the schools available for training? Are the dollars made available for their training?

Being cheap on training is being cheap on productivity! And, mistaking familiarization for training is the deadliest mistake of all, according to the better equipment reps. The typical complaint is this: "The man installed the machine. I got all my technicians around the thing after work. And all the trainer did was show them how to hook it up!"

Sorry, friend: that's all familiarization is supposed to do. Your technicians are supposed to know how to repair a car. Familiarization has to do with utilizing a particular piece of equipment in light of your existing knowledge of repair, not how to repair a car.

If your people really know how to do repair, then familiarization is all they need. If, however, you are launching a new service for which your techs have little fundamental training, and even less experience, then it's back to school, and that costs money.

Too many service organizations expect their technicians to upgrade their own skills and knowledge, all by themselves.

If management does not have a plan for updating and retraining technicians, then you trust to luck if you expect them to repair the turbochargers, electronic suspension systems, anti-skid brake systems, and other developments which are just around the corner.

We're not talking hardware here; we're talking brainpower. Don't talk yourself into thinking that the new hardware can do it all. It only does some of the job. Your men do need reeducation. Our industry is one which will be driven by professional technicians, and professional means continuing education.

Service managers who don't have a mix of ages in their bay staff should worry. There should be some gray hairs, some smooth chins. In other words, you want age, wisdom, and perspective—and youthful enthusiasm, entry skills, and potential.

Our business only grows through an apprenticeship system, as is true of all craft trades.

A manager without apprentices is probably insecure as hell. Think about it. This is a very sneaky hidden cost. You wind up with a shop of grizzled veterans. No one has stimulated their thinking, and the market suddenly passes you by. We need youth in our bays.

Treating Your Mechanics Right

Included in the people factor is how you treat your mechanics. Treating your mechanics "right" is key to any successful service operation. How to do it is no mystery—simple common sense will do the job.

When the going in the service area really gets rough, and employee/manager relations reach the rumor, anger, bitter, and "I quit/you're fired!" stage, it is management that is at fault. Most good managers don't deny this concept: 100% of all employee/management problems are created by management. Good managers realize that failure to exercise due care when hiring may saddle their business with a chronic malcontent.

They also realize there is a imperative to perform correctly, as management, after the hire. If an enthusiastic, talented employee loses his enthusiasm and becomes unhappy, it is inevitably the fault of management.

Which brings up the question, how should you treat a mechanic?

We have no intention of going into a lot of psychological claptrap here. The employee relations gurus will be happy to give you all sorts of needs fulfillment charts that are supposed to tell you how to treat employees. Instead, we're going to rely on our observations and list a half dozen factors successful managers use to cultivate the loyalty and continued enthusiasm and competence of their staff.

Input To Management

- **Successful service operations offer employees the right to contribute to the decision-making process of management.**

One regular subject of the cartoonist's pen is the suggestion box. We find this very unfortunate. It has helped to perpetuate the myth of the worker ignorant of management's needs and the myth of the manager who considers workers stupid or witless. As we say, these are myths.

There are thousands of companies in this country who use the suggestion box concept as the lifeblood of business improvement. The Japanese are flat-out having our lunch by using the suggestion box concept, and most smart U.S. companies are going back to it in droves. And profiting thereby.

You must demand and use the suggestions of your employees—their contributions to management—if you are going to prosper in this business.

When was the last time you sat down with your sales staff and tech staff—including the parts chaser, tire buster, and porter—and told them what your business was all about? Told them what you think makes it tick? Told them their role in the overall framework of doing the job and relieving the grateful customer of his money?

When was the last time you actively solicited the brainpower of your mechanics in improving your business? By actively we mean actually holding a meeting and calling for ideas, rather than having some weak policy statement buried somewhere in some employee manual.

Clearly, not all employees are going to jump to their feet quoting from Peter Drucker or W.E. Demming. In fact, most employees will want to discuss their ideas with you, privately.

If you are going to solicit employee ideas, then you must give them a private path to express their ideas. And you have to be encouraging. If an employee has an idea that is workable, give it a try. Then, whether the idea works or not, be lavish with acknowledgment and praise for the idea. Remember this well: If employees get praise only when their ideas work, they will be afraid to offer ideas that might be eventual failures. And people need the right to fail if they are going to work toward success.

Equal Treatment

- **Successful service operations give employees even-handed and equitable rules**

and regulations.

Nothing is as destructive to the morale and attitude of employees as management favoritism or uneven application of rules and regulations.

Most of the employers usually follow a cycle of strictness, followed by laxity (until employee attitudes deteriorate to a very low level) followed by renewed strictness, more laxity, etc.

Employees do not like this continual yanking of the rug from under their feet.

Employees demand consistent, even, equitable, and fair application of all rules and regulations at all times for all personnel. When this demand is not met, they leave for other pastures, greener or not.

The Employee Manual

- **Successful service operations have detailed, explicit, well-tuned employee manuals.**

We asked one very bright and successful business owner—a leader in the automotive aftermarket business and a contributor to many aftermarket associations, panels, and trade groups—how many people he had employed before he instituted his company's employee manual. His answer: "One."

Typically, in writing and refining an employee manual, you will eventually learn that the typical job description should be much longer than most employers think. It should never come as a surprise, to either employer or employee, when a task is requested of the worker.

We also think the employee should be able to see the job description, in detail, as it relates to the boss.

There is good reason for this seeming over-reliance on formal documentation of employer/employee relationships: Both need an ironclad source of arbitration for disputes.

There are lots of managers who think they enjoy a "paternal" relationship with their employees. This relationship is about as unhealthy and stupid as any relationship in our business. Paternal relationships, you may remember, are often highly arbitrary. After all, the good will we get from a pater familias is something we get without earning it. Which means it can be withdrawn at any time.

What employee, with drive and determination of his own, is going to accept a father image for a boss? None we'd want to hire. You need an employee manual, both for the protection of employer and employee, and for the healthy relationships it produces when it is evenly enforced.

More Input To Management

- **Successful service operations consult directly with their service personnel on actions that affect the service bays.**

It is an unfortunate fact of our business that most decisions regarding service bays are not made by people who work—or have ever worked—there Most of the decisions are made by high-powered business executives who wouldn't think of letting a mechanic choose the office computer. Yet, these gentlemen feel perfectly competent to listen to a salesman's pitch and decide what sort of hardware to procure for the technicians.

Large manufacturing corporations seldom let their management engage in this sort of foolhardy behavior. They insist upon purchasing committees and intelligent discussion between management and operations before capital is spent.

But we can take you for a sad tour of many shop areas, where you will see equipment gathering dust, or turned to the wall, or broken and not repaired. We can even show you locations where brand new hardware, purchased in anticipation of rising task levels, stands idle and unused after months of availability to the technical staff.

Why this legion of ill-used diagnostic computers and other hardware? Usually because management failed to ask operations what the talent in the bays thought might be useful.

Money Counts Too

- **Share the wealth.**

In case you were wondering, this topic comes largely under the heading of "fair and equitably management." Not under the heading of "greed."

After all the other factors mentioned, mechanics have a learned sense of fairness about who gets what for doing what.

The parts people, as salesmen, are usually on some sort of commission system. In the service bays, you also have sales people. They occasionally are offered commissions, too. For what? Usually, for parts sales. Not for labor sales, in most cases. This tends to exalt the parts selling business, and denigrates the labor business. Not a very attractive commission for a man who values his labor!

There is a real danger in having mechanics on commission in a typical fee-for-service operation, of course. Nevertheless, most service management doesn't begin to make use of bonus and incentive payments correctly. This is primarily due to confusion about how to go about it. Face it: Commissions on parts sales are fairly easy. Commissions on service sales are a little harder to deal with.

Having a bonus system, based upon efficiency and productivity—not the sale of parts—is exactly the kind of system most mechanics would love to have. However, this puts a burden on management to track productivity—something that far too many management organizations in our business are either too busy, too lazy, or too embarrassed to do.

Usually, it is laziness, thank heaven. And by laziness, we mean failure to determine what data needs to be captured, failure to investigate incentive systems, and failure to institute, maintain and refine the data capture and incentive payment schedules so they make sense to the workers, management, and bean counters, alike.

Most service personnel will be delighted to respond to almost any sort of reasonable incentive program. You can base it on almost any benchmark—average jobs done per day over a quarter; gross ticket improvements over a quarter; or other reasonable benchmarks. If you want to factor in variables such as team efforts, inspection systems, etc., so much the better.

Does this mean more work for managers? Sure, it does. But it also means increased worker productivity, increased gross dollars and profits, increased job satisfaction and ésprit de corps, improved customer relations and satisfaction, increased retention of existing workforce and easier recruitment of new and talented workers.

Training

- **Successful service operations provide some type of on-going training.**

As we said above in the "People Factor" section, train, train. It pays, pays, pays.

If you are a manager, and think what we've mentioned here doesn't make sense, we suggest you ask your service personnel if it makes sense to them. Then look at other successful service operations. The list of "how to treat your mechanics" can be longer—but the ones on this list are more than a good start in the right direction!

Once you're heading in the right direction, you can begin to look at individual service profit opportunities.

Tune-Up Service Opportunities

Tune-ups are, perhaps, the most controversial automotive service area. You will find more heated arguments, wild opinions, and rumors about tune-ups than about anything else.

Almost universally, if you ask shops with tune-ups in their service mix, what their worst problem is, they will say, "Comebacks on tune-ups. These jobs just don't stay sold!"

What does it take to do a tune-up, anyway? What will make the customer happy? Is this job impossible, today? Good questions. We'll try to give you some intelligent answers.

First of all, be assured there are shops that make a profit from tune-ups, and wouldn't have it any other way. Other shops do the work—or think they do—but do only "so-so" in terms of profit. And, there is also a fairly wide philosophical divergence regarding the tune-up. Let's state the most diverse:

- **Philosophy #1:** Replace only what needs replacing, and only those parts which are in common—that is, not "dealer only" parts. Guarantee the work.
- **Philosophy #2:** Diagnose the car's problems according to the latest technology, and sell the customer the fixes which need doing.

The Parts-Oriented Tune-up

The first philosophy is very customer oriented. It makes one very important (and apparently accurate) assumption: that the customer is parts-oriented. The customer finds it easy to equate the replacement of a part with an "engine tune-up." Not so the jobs without some parts replacement. In the case of the customer/fault interface, it is much easier to hold up a bad wire or hand the customer a scuzzy rotor and plugs than it is to point at the control module you have replaced.

It is obvious, that this parts-orientation is also much easier for the automotive chain executive. Counting SKUs is easier than discussing service hours. The parts-oriented tune-up is a comfortable concept.

What if the parts replacement doesn't have the desired effect? What if "the car still runs bad?" This is largely a function of communication. If you tell the customer his car is going to run good (or, at least, better than he thinks it does,) you have incurred an obligation—in fact, a contract—to actually make it run better. If you are smart— you won't do this.

Smart operators who work with a parts-oriented philosophy do not promise a better running car. They say, "These parts need to be replaced, and we can prove it. If the replacement doesn't result in the desired performance improvement, if any, then it is not the fault of our work. Where the problem is mysterious, you will have to return to the car dealer to have the car fixed."

Does this sound like a cop-out? It is. But it seems to reflect today's aftermarket reality, too.

The Diagnostic Tune-Up

In most cases, service provided in this category pays for expensive diagnostic computers. Some installations run well over $50,000, with in-floor dynos, etc. For this money, unfortunately, the service outlet frequently purchases the right to promise a lot and deliver very little.

The problems is that the computer can be no smarter than the expert it is supposedly emulating or the peoiple who programmed it. And there are sometimes "bugs" in the sustem. These machines can not make decisions on their own.

Some of the diagnostic hardware available now, and much of it coming in the future, is truly remarkable. Some of it is probably better than the diagnostic gear the OE folks are dreaming up for their engine systems. We love the new diagnostic hardware and wouldn't even consider doing engine service without the best.

But none of it can possibly be all things to all men—or all engines.

This leads to another fairly inevitable conclusion: if there are "bugs" in all computer systems, what about the "expert system" diagnostic charts which appear in the OE literature? Sorry, Virginia—there is no Santa Claus.

Is there any hope? I think there is a way out of this mess, especially for the aftermarket service organization trying to deliver good service. You can take one of four tune-up positions:

- **Position One: Be A Parts Replacer**

One of the positions you can adopt is: "We replace parts." If you perform the regular maintenance shown in the car manuals, and use your banzai diagnostic equipment to do preventive checks on various systems—to catch faults even the car owner wasn't aware of—you can reasonably charge for a valuable maintenance and preventive diagnostic service.

- **Position Two: Be A "Diagnostic Source"**

You can position yourself as a technical and diagnostic source. Use your diagnostic hardware to define problems as well as possible (and how well you do it depends upon the hardware and the capability built into it) and then repair what you can. This is a "non-parts" position, where you offer a service rather than a parts replacement capability as a primary position.

- **Position Three: Be A Specialist**

This means that you take your personnel and develop specialists in specific makes of cars, and/or specific systems on each car. This allows the technician to learn all about a specific system. It allows him, in practice, to be "better than the diagnostic hardware," believe it or not. He can apply his own experience to by-pass certain diagnostic test routines which he knows are non-productive, and to concentrate on diagnosing pinpoint areas which are indicated by the car's symptoms.

- **Position Four: Be An Advisor Only**

A last option is to use the diagnostic hardware simply as a sales device. Test cars and provide printouts which lead the customer to his own purchases for DIY installation—or to shop installation directed by the customer. This relieves the shop of the burden of a correct diagnosis. In this case, all the technician needs to know how to do is remove and install properly.

In each case, determine exactly what the customer expects from your every verbal "promise"... and be careful not to dig yourself a hole by promising more than you can deliver.

A TEST ON THE HIDDEN COSTS OF SERVICE

My service managers attend management seminars annually.

T F

My technicians attend a technical seminar twice each year.

T F

Familiarization is not training.

T F

My paperwork establishes percentage efficiency levels for each man.

T F

My paperwork establishes percentage efficiency levels for each bay and each major piece of equipment.

T F

I review my paperwork systems each year.

T F

My paperwork could be (and will be) converted to a computer system.

T F

Any job can be done in any bay, although technicians have specialties.

T F

I have all diagnostic hardware checked for calibration annually.

T F

I have the shop cleaned, professionally, at least once a week.

T F

I use glitch sheets to write up faults in hardware, tools, and equipment, and review them daily or weekly.

T F

I have technicians review service equipment and procedures.

T F

My best technicians attend management training seminars annually.

T F

For each T or true answer, give yourself five points. For each F or false answer, give no points. Total all answers. We suggest the following scores as guides:

40-65 There aren't many hidden costs lurking in your operation. And we'd like you to take a look at our car!
30-40 Not bad, but you can maximize efficiency with a little attention to detail.
15-30 About average, unfortunately.
10-15 Isn't it nice to know the enormous gains which management improvements will give you?
0-10 Plantation management at work here? Is anyone paying attention? You'll also be happy to know you've got a lot of company in this group.

Ride Control Service Opportunities

A lot of industry experts will tell you that ride control and suspension work is going to be very important—increasingly important—in the future. We agree.

The important aspect of the change to struts, front wheel drive (FWD), four wheel drive (4WD), rack and pinion (R&P), and gas shocks is that the customer's expectations will be heightened. Those working in the imported car ranks saw it happen years ago. Customers simply demanded more out of their cars; more performance, more smoothness, more responsiveness, better transition behavior—all at the expense of a boulevard ride. So there are new opportunities for excellence in service.

But in fact, it is not the newness or the novelty of these items which will generate business. It is not the need for training, new service techniques, or new tools which will create the need for expertise in suspension and ride control. What cause the demand? The secret word is weight.

Weight Is The Key

Weight—bulk—mass—has been used to hide inadequacies in suspension design. If you make the sprung mass great enough, the sheer inertia of the mass tends to isolate the driver and passengers from whatever irregularities appear in the road.

This is just fine if opulent comfort is what you have in mind, but not if superior braking, nimble handling, and decent fuel mileage are what you want.

Mechanics weaned on imports

have known this for years. The domestic car mechanic is just gaining this knowledge. The loss of mass from the domestic car has created problems which can mean greatly increased service bay business for the smart service provider.

Plenty of experienced import alignment men—and an increasing number of domestic alignment men—keep weight adding devices, such as lead strips from plumbing contractors, handy to balance loads to match the normal driving configurations of the customer's car.

Low vehicle weights—particularly low sprung mass weights—create problems and opportunities, as you might imagine.

Small variations in vehicle loading can create unusual, and correctable, steering and suspension problems. Minor wear in ball joints or bushings can steer cars in unusual ways.

The typical alignment expert of the future will be prepared to measure some much smaller tolerance ranges than heretofore, and he will be ready to adjust for much smaller increments in providing correction.

Does this indicate the need for equipment with finer increments of measurement when it comes to caster, camber, and toe? Maybe. On the other hand, it is primarily the operator's skill and dedication to accuracy which will make the difference. The slipshod or careless technician won't be able to make the best or most expensive equipment look good, and vice versa.

New Equipment Needed

Some changes in cars will require new equipment, however.

Four wheel alignment, you are thinking. Not hardly. You have to be able to do four wheel alignment, of course. But you can do it with your old equipment if you are prepared to take the time to do it. There isn't an alignment manufacturer who won't tell you this, too. Naturally equipment which is designed to do the four wheel job will do it faster.

However, the new suspension systems will dictate measurement of unusual suspension angels and relationships.

For instance, there is negative scrub radius steering, the suspension system that tends to prevent wild steering gyrations in the event of a blown front tire. However safe and good for stability, this design makes for large changes in track movement and angular changes when measuring caster, SAI, or toe in turns. Again, many suspension shops resorted to stop-gap measures.

And now there is an offset ball joint design which requires a 60° swing instead of the traditional 40° swing for some measurements. Now almost all alignment plates are close to inadequate—if you are going to perform your measurements the way the manufacturer wants them performed. What are you going to do when and if GM puts the idea on every car?

Your alignment spec manuals will show you lots of small cars with steering angles in excess of the 40° total we have always dealt with. Lots. If your equipment isn't up to par on these cars, imagine how far behind you'll be very shortly.

Constant velocity joints (for both FWD and 4WD) impose new requirements on equipment as well. Cars in these categories have a demand for adjusting and limiting the steering lock on the vehicle. Why? Because failure to do so can result in severe and unusual wear of the CV joints (which cost hundreds of dollars apiece) or, at the very worst, can pop the CV joint and spew its innards all over the street.

Will you need new parts to service these cars? Yes. Will there by new service opportunities in this area? Of course. Is there a new equipment imperative here? Yes there is.

Rack And Pinion Too

Not everyone lumps wheel service with suspension and handling; but, with small, light, nimble cars, we have to do so. Again, heavy cars tended to absorb a lot of the shaking and imbalance forces caused by wheels and tires of marginal truth. This is where rack and pinion steering comes into the picture as well.

The typical steering gear on a domestic car was a recirculating ball system with a pitman arm, idler arm, relay rod, and tie rods. The nice thing about this steering system was it turned the rotary motion of the steering wheel through a 90° angle on its way to the steering linkage. This meant it was easy to create motion toward the linkage—but difficult to reverse the direction of force.

Rack and pinion, on the other hand is completely reversible. It damps out almost none of the road shock or wheel imbalance. Thus it is vitally important to be certain that all parts of the system are tight and adjusted properly.

Loose wheel bearings, improperly tightened lug nuts, and poor lubrication all tent to be magnified with R&P, and especially on a small, light cars. (Heavy cars with R&P, again, tend to mask flaws in the system. But they are a disappearing breed.)

As we said at the outset—forget the novelty of the new designs. The benefit for the service department is in the standard of excellence your customers will demand. That is a great situation for the shop with desire to excel.

Brake Service Opportunities

Is there such a thing as a "cheap brake job?" Sure, there is. If you examine the car and you find no unusual condition which would cause you to refuse the job, then maybe all you need to do is replace a set of disc brake pads or brake shoes and send your customer away after he pays your lowball advertised price. Maybe there is a fair percentage of customers who respond to your promotional brake job price who will not get more than the minimum.

If so, shame on you. The name of the game in brake service is "sell up." And if this is the name of the game, it is up to you to do the selling. If you don't get the sell up, don't blame the car, the owner, the technician, the advertising, or the marketplace.

And certainly do not blame the brake friction and parts manufacturers or the car makers. These folks have done wonders in providing the brake service marketer with the goods it takes to make the sell up: new systems, new service requirements, new products, and new reasons to buy them all.

Also, do not blame the equipment manufacturers. They have done plenty to make the job more profitable as well, with new equipment which works faster and more accurately—including on-car resurfacing tools that expand your market while increasing your labor margins.

The reason you should love "cheap brake jobs" is because they give you a chance to inspect the car. Typically, your customer has a good idea that something is wrong with his vehicle. Brakes—like exhausts, batteries, and some other systems—are largely self evident when in need of repair. The car stops "funny," or drives to one side, or makes noise, or the brake warning light comes on. Something happens to make your customer think he needs a brake job. And in many cases, it is your lowball special advertised price which triggers him to turn into your service operation.

Then, the inspection begins.

Factors Which Create A Sell Up

The number one factor in creating a sell up is fear. The shop manager's fear. Your lawyer's fear. There is a liability factor for the shop which works on brakes. Your experience may be otherwise, but mine is that even the worst shop in my marketing area did a reasonably competent job on brakes. They simply could not afford not to.

Thus, your primary concern during an inspection is, "Forget about the brake special: what do I have to do to make this car stop as it did out of the factory?"

In order to do a competent inspection, you need an inspection checklist. There are three reasons for this:

- **The first is, again, a legal one. You want a record of your inspection.**
- **Second, you want a reference guide for the service manager or advisor so he can lead your customer through the process of exceptions and add-ons to the promotional price—if any.**
- **Third, you want a reference guide for the technician so he doesn't miss anything.**

This, clearly, is where a little salesmanship begins to come into the picture. Your ability to create a believable image as a service shop and service advisor to your customers largely governs the success of the purchase of the basic "safe" brake job. If you clear this hurdle with your customer, your next step is the sell up.

Sell Up To What?

Rotor or drum turning is not a sell up, except on cars with massive rotors or drums, which are primarily older cars. Turning rotors and drums can produce a smoother, slightly more effective braking action. It can also extend the life of the brake friction materials.

But, on today's downsized cars, removing material from the rotor or drum which isn't required to bring the surfaces into factory tolerances is certain to create—not solve—noise, warpage, and pedal action problems.

Any time you remove material (especially from a rotor), you should warn your customer about the potential for squeal. If the resulting squeal is tolerable to your customer, then you've lost nothing. If your customer is sensitive to noise, then the sell up is to a new rotor or drum.

Selling up for noise control is relatively easy. It isn't your fault, because you get a chance to lay the blame at the car maker's feet. And it is a decision made by your customer, therefore, not purely your decision.

The second sell up is a maintenance sell up. There is no more beneficial and (to the technician, at least) satisfying job than flushing the brake system and bleeding all the lines. Getting rid of the residual moisture in the brake fluid, and creating a truly hard pedal with all the air out of the lines, is a great service job and one which customers usually have no trouble appreciating. And, since it is a part of the zone of repair, it is profitable from both a parts and a labor standpoint.

Wheel bearing repackaging and seal replacement is an obvious sell up, whether rotors are removed for resurfacing or not. Most vehicle owner's manuals specify a regular repack interval. Again, the sell is not yours, but the manufacturer's.

A fourth sell up is preventive maintenance on the calipers and/or wheel cylinders. The older the vehicle, the more likely there has been some corrosion of the caliper piston or wheel cylinder bore. Honing, replacing rubber parts, replacing the piston—or whatever—is good practice, but a trifle difficult to show and tell. If you have good manufacturer literature which does the graphic explaining for you, you are better off than merely trying to talk your way through the job.

The Most Important Sell Up

The most important sell up, clearly, is friction materials. Your brake service special must, at a minimum, be for original equipment lining specifications. You can not afford to do otherwise. Period.

If a car was delivered with organic linings, then this is the minimum your offer can be. If the car was delivered with a semi-metallic lining, then an organic or other type of lining is not good enough for the car. You must match OE specs at the very least.

However, there are very few friction materials manufacturers who do not offer several grades of brake friction materials. Each upgrade offers a higher level of performance, for which there is a higher cost and a higher profit.

All and all, if you are not getting your share of profit from your service operation, you have no one to blame but yourself. ■

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Claims

Has Co-op Giving Become Give-In? (See our story on page 34)

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Is co-op dead? Some suppliers think so. Big retailers are getting more funds over and above available co-op allowances.

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ABOUT OUR COVER: Our thanks to Chevrolet Motor Division for the loan of the 1988 Chevy Full-Size C/K pick-up truck used on the cover. And our thanks to the many suppliers who loaned us the accessories shown in the bed.

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PUBLISHER'S NOTES

A SPECIAL ISSUE

This is an exciting issue! Beginning with *AM's* cover shot, we open the door to one of today's very hottest markets . . . the light truck accessories market. These hang/bolt-on accessories dress up your basic truck; they beautify your bottom line.

What's more, our story on advertising became a very different story than we anticipated. When our Senior News and Feature Editor John Wirebach interviewed manufacturers about co-op, he couldn't get to his basic question list for all that they wanted to tell us . . . without questions, and without attribution. It's quite a story: read it!

Next month, you can read what retailers have to say about changing advertising and merchandising support practices.

Detailing The Market has expanded! Thanks to your response, we've increased our page size, and coverage, of aftermarket news items in our "quick take" format.

Our Consumer Care Care Guide is a systematic approach to car care for the consumer. Last year over 30,000 copies were distributed. Order your extras today . . . great giveaways for Spring promotions and new store openings.

We're proud of this issue. It offers you lots of good reading and useful information. What do you think? Let us hear from you. ■

Sarah Frankson,
Publisher

DETAILING THE MARKET

IN-STORE FOCUS

Crown Auto Inc.
[illegible]550 Corporate Way
Eden Prairie, MN 55344
(612) 937-9000
Stores: 52
Total Chain Sales (est.): $36,000,000
% Retail Business: 100%
Average SKUs: 8,500
Service Bays: 198
Founded: 1962
Market Area: Upper Midwest

How does Crown Auto, with an average of only 8,500 SKUs per store, command such an impressive share of market?

One way, according to the chain's president/ceo Floyd Adelman, is through intensive advertising. Print, TV, radio, billboards and distinctive outdoor signing have led to what Adelman calls "top of the mind awareness—when the customer thinks auto parts and accessories, Crown Auto is the first thing that comes to his mind."

The chain sells auto parts and accessories, and maintains full-service bays in 48 out of 52 outlets. Unlike other major chains, Crown Auto builds all new stores to its own specifications. There have been no acquisitions since 1975.

Adelman believes a retailer like Crown Auto faces different types of competition.

"First, we're competing with auto parts and accessories retailers such as Champion, Big Wheel and so forth," he says. "Second, we carry a large percentage of the same products as discounters such as 7-Eleven, Target and K mart outlets. Next we have to compete with all sorts of other retailers, including dry cleaners and drug stores. Finally, as a service business, we're facing competition from tire companies and the so-called 'specialty stores'—muffler specialists, tune-up specialists, etc."

The only way to stay alive in such an atmosphere is to "build your own reputation on your own merits," Adelman believes. "The worst thing you can do is chase your competition," he says.

"In the Eighties, all kinds of retailers are selling automotive, from 7-Eleven to hotel gift shops," says Adelman. "One third of all retail establishments, including dry cleaners, sell auto products. We have to compete with all that."

According to Adelman's theory, if a chain is going to compete in today's market, it must think of itself as a retailer, with the customer number one.

"Most chains that were formed in the Sixties and before see themselves as 'good-old-boys' auto parts retailers," Adelman explains, "an offshoot of the jobber. They have not equated themselves to regular retailers."

To avoid that problem, Crown changed its thinking.

"We are no longer an auto parts store that retails," says Adelman. "Crown Auto is now a retail store that sells auto parts and service."

Managers' meetings are held twice a year. The theme for the year is unveiled at the Spring meeting. (This years's: "Striving for Retail Excellence.") A full two-day meeting for managers is followed by a complete repeat of the same meeting for the assistant managers. ("We feel the assistants are the future of the company, so we strive to give them equal treatment," says Adelman.)

Chain personnel receive weekly marketing mailers and a monthly "president's letter."

Adelman also has instituted a "Dear Floyd letter" system. "Dear Floyd" letter blanks are provided in every store. Any employee can send a letter; Adelman personally answers each one.

"We're trying to re-instill the entrepreneurial spirit," explains Adelman. "Chains start that way, with hands-on involvement and few regulations. As you grow, the structures, policies and so forth get instituted. And they are necessary. We operate with central advertising, central purchasing, etc. But from the appearance, customer service and employee standpoint, there can be differences from store to store.

Of course, planograms and other merchandising details are supplied by the home office, as in all chains. But managers have input, and SKUs can be different in different stores. In general, however, each outlet carries seasonal items in front. Specific items are tied together for add-on sales.

Each store carries foreign parts—a full line for major foreign cars. A special order department fills customers' special needs. This contributes to Crown Auto's full-service image.

That, and the fact that Crown Auto works hard to achieve customer awareness,

DETAIL

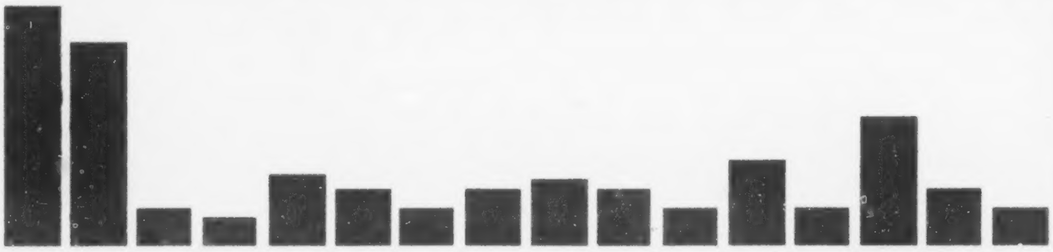
29%

of all DIYers who own three or more cars have graduated from college and/or done some postgraduate work, according to the 1987 *Automotive Marketing Consumer Automotive Repair Study.*

PROFILE: LIGHT TRUCK DIYers

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study,* we look at DIYers who drive light trucks.

			Age					Income				Hours Per Month Spent On DIY			
Total	Male	Female	-25	25-34	35-44	45-54	55 +	-$20K	$20-30K	$30-40K	+ 40K	-1 Hrs	1-5 Hrs	6-10 Hrs	11 + Hrs
100.0%	85.1%	14.9%	11.8%	30.4%	22.4%	13.7%	21.7%	28.0%	22.4%	13.4%	36.2%	14.0%	53.7%	16.5%	15.8%



THE AUTOMOTIVE MARKETING INDEX

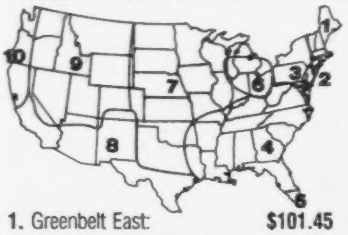
THE 1986-87 *AUTOMOTIVE MARKETING* MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index. The products include a non-resistor spark plug; an oil filter; a can of 10W30 motor oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

FEBRUARY 1987 NATIONAL AVERAGE MARKETBASKET PRICES

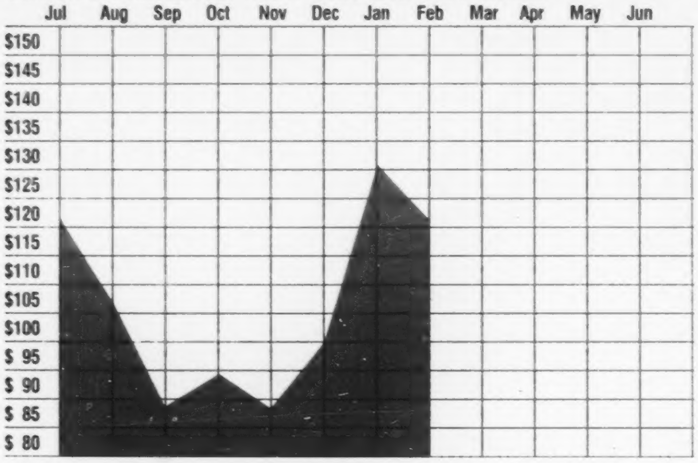
A non-resistor spark plug:	$ .74	A gas-charged shock:	$ 14.88
An oil filter:	2.41	One gallon of antifreeze:	3.87
A can of 10W30 oil:	.76	One pair of wiper refills:	2.80
A can of paste wax:	2.69	A 40-month battery:	28.94
An AM/FM/Cassette:	54.41	**Total:**	**$111.55**

FEBRUARY AM MARKETBASKET PRICES BY MARKETING AREA



1. Greenbelt East:	$101.45
2. Megapolis East:	87.57
3. Smokestack East:	$112.56
4. Old South:	111.26
5. Caribbean South:	110.54
6. Smokestack Central:	121.65
7. Grainbelt Central:	117.51
8. Spanish West:	114.14
9. Desert West:	108.03
10. Greenbelt West:	111.33

NATIONAL AVERAGE MONTHLY 1986-87 AFTERMARKET BASKET PRICES



AFTERMARKET BUSINESS INDICATORS

	Unit/Base	Mo/Qr	Current Period	Prior Period	Year Ago, Same Period	Low (61-87)	High (61-87)
Personal Income	billicn	Jan 87	$3,548.0	$3,546.8	$3,417.4	403.8 Jan 61	3,548.0 Jan 87
Personal Consumption Expenditures	billion	4Q	$2,819.9	$2,799.8	$2,667.9	328.5 1Q 61	28.9.9 4Q 86
Consumer Price Index	67 = 100	Jan	333.1	331.1	328.4	89.3 May 61	333.1 Jan 87

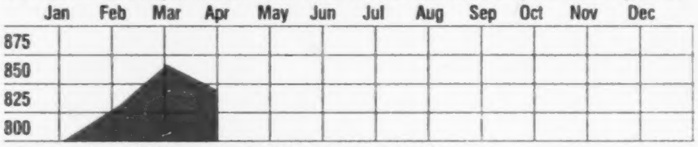
1987 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various retail chain, manufacturer, and distributor common stocks in different stock exchanges for the 52 week period prior to April 16.

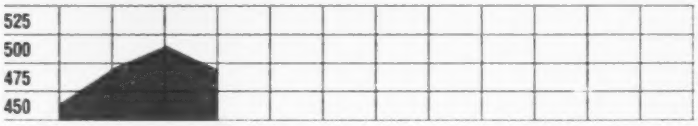
	Exchange	52-week High	52-week Low	4/16 Quote	P-E Ratio
Armor All	OTC	19¼	10¼	17⅛	–
Cardis Corp.	AMEX	10	4½	4⅞	5
Champ Parts	OTC	12	3½	9¼	37
Champ Spk Plg	NYSE	13¾	8¾	12⅛	–
Chief Auto	OTC	19¾	4¼	14¼	17
Crown Auto	OTC	4⅛	3	3½	–
Dana Corp.	NYSE	44⅝	25½	43¼	26
Durakon	OTC	18	9⅞	10½	14
Echlin	NYSE	25⅜	15¼	21½	18
Facet	NYSE	19⅞	8¾	18⅝	22
Genuine Parts	NYSE	54¼	40	50¾	22
Mr. Gasket	OTC	15	4⅜	5⅜	13
Prkr Hannfln	NYSE	37⅝	20¼	34⅛	17
Pennzoil	NYSE	95	48⅛	78	61
Pep Boys	NYSE	53	30⅜	48	29
Perry Drugs	NYSE	20⅞	12	12⅞	37
Purolator	NYSE	40⅝	15	39⅜	–
Quaker State	NYSE	31¾	23½	25¾	13
Republic Auto	OTC	9¾	6⅝	7⅜	–
Rite Aid	NYSE	39¾	26¾	36	19
Sealed Power	NYSE	35⅜	23⅛	33¾	15
Southland	NYSE	60½	44	48¼	12
Stan Mtr Prod	NYSE	25⅜	16⅛	21½	15
Superior Ind	AMEX	17	11⅛	15¼	11
TBC Corp.	OTC	13¼	5¾	11¾	–
Tenneco	NYSE	50½	35⅜	46¼	–
Trak Auto	OTC	18¾	11	13½	338
Triad Systems	OTC	15⅛	8½	13⅛	26
Witco	NYSE	47⅜	31⅛	42¾	15

DOW JONES 65 COMPOSITE STOCKS

Dow Jones 65 composite stock and *AM's* 17 aftermarket stock price as of April 16.

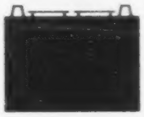


AM 17 COMPOSITE AFTERMARKET STOCKS



PRODUCT OF THE MONTH: BATTERIES

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study*, we look at the individuals who purchased and installed a battery during a 12-month period.



			Age					Income				Hours Per Month Spent On DIY				Number Of Cars Responsible For		
Total	Male	Female	-25	25-34	35-44	45-54	55+	-$20K	$20-30K	$30-40K	40K	-1 hr	1-5 Hrs	6-10 Hrs	11+ Hrs	1	2	3 or More
100.0%	73.5%	24.7%	9.5%	30.1%	29.6%	11.3%	19.8%	27.5%	27 8%	13.1%	22.1%	14.4%	55.8%	15.7%	12.6%	26.5%	41.6%	31.9%

SELL THE EXTRAS FOR EXTRA PROFIT

There are some interesting trends in today's six billion dollar automotive accessories business.

by **Edward Kaufman**, Contributing Editor and **Gail Krueger-Nicholson**, Senior Editor

Accessories are items which are desired rather than absolutely needed. Your customers can drive their cars, trucks, vans, and utility vehicles right off the dealership lot without buying a thing from your store. But, vehicle owners prefer to customize and personalize new vehicles, and they like to spruce up older vehicles as well. In fact, your customers place few limits on the items they will buy to put on, or in, their vehicles if the price is right, and if the items are useful or even just appealing and fun. Consequently, accessories are a $6 billion-plus business.

For example, does anyone really *need* one of those diamond shaped signs saying "Mother-In-Law in Trunk?" No. Yet one constant in the aftermarket is demand for novelty items. Sales of any fad item may be short lived. However, the same kinds of people who buy trendy "Baby On Board" signs are also good prospects for other nonsense items and, more importantly, for the high-ticket accessories that mean bottom-line profits for you.

While it is not possible to review all accessories in one article—there are just too many of them—there are some positive trends you should be aware of.

Strong Demand For Accessories

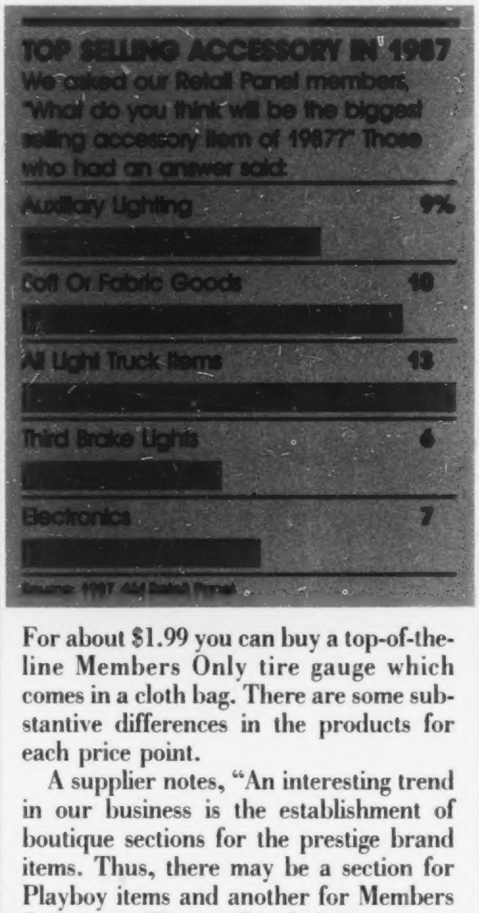
The most important trend is this: accessories are selling very well. And that is true in all categories, from gadgets to big-ticket electronics.

For instance, impulse accessories and gadgets continue to be solid sellers. This category is comprised of small miscellaneous items and tools. A few examples include dashboard coffee cup holders, holders for toll bridge change, visor mirrors, tire gauges, and ice scrapers. The list goes on and on. Some people in the aftermarket refer to this group of miscellaneous products as the "Allison category;" after the Allison Corp., Livingston, NJ, long identified with manufacturing and marketing a broad line of these impulse accessories.

Allison Corp. has had a good track record for accurately guessing which kinds of miscellaneous accessories and tools will appeal to car owners. Allison vice president Saul Dennison emphasizes that, "We are not in the novelty business. We avoid fad items."

On the other hand, the company is pretty quick to respond to what it considers to be significant trends in the market. Allison, along with other companies, has grabbed onto the trend of upgrading vehicles with prestige "designer brand"accessories. It has been licensed to use the "Playboy" and "Members Only" names on many of its product lines.

Is there a difference between these upgraded accessories and run-of-the mill accessories? You bet! You can buy a plain vanilla (actually, plain chrome) Allison tire gauge for about 99 cents. For a bit more, you can buy a Playboy tire gauge in black chrome with a white Playboy logo. For about $1.99 you can buy a top-of-the-line Members Only tire gauge which comes in a cloth bag. There are some substantive differences in the products for each price point.


TOP SELLING ACCESSORY IN 1987

We asked our Retail Panel members, "What do you think will be the biggest selling accessory item of 1987?" Those who had an answer said:

Source: 1987 AM Retail Panel

A supplier notes, "An interesting trend in our business is the establishment of boutique sections for the prestige brand items. Thus, there may be a section for Playboy items and another for Members Only items. These will include items manufactured by other companies which are also licensed to use these names."

Another company taking advantage of the licensed name trend is Chandler Holt Dubois, Corona, CA, which markets driving accessories under the racing Andretti family name.

Besides Allison, there are several other sources for impulse accessories and gadgets. For example, Hopkins Mfg. Co., Emporia, KS, is big on ice scrapers, snow brushes and combination bug washer/squeegees. Allied Plastics, Gastonia, NC, is a source for molded car items like snack trays, litter baskets, beverage holders, oil drain pans, funnels and splash guards.

Soft Goods

Styles in car mats change and manufacturers come and go. However, overall demand for car mats appears to be steady. They are purchased to protect the flooring of new cars and cover up messy floors of older cars. These days you can obtain attractive carpet/rubber mats from your car dealer which will fit precisely in your new car and, or course, carry the car's logo. Guess what? Car owners are buying these mats—and *protecting* them with plain-old black rubber mats obtained from parts stores or mass merchandisers.

The seat cover market has gone through remarkable changes during the past 20 years. The market declined in the late 1960s to the mid 1970s, but has come back stronger than ever. According to one supplier, "Stores which used to devote only four feet of space to seat covers ten years ago have 16 foot sections today. It takes a lot of space to display all the styles, price points and configurations of interest to vehicle owners."

There is demand for low end sets retailing at $19.95 for front and back seats, increasing demand for more highly styled fabric seat covers retailing for upwards of $40, and continuing strong demand for genuine sheepskin covers costing about $150. One reason for the range of price points is that the reasons for purchase cover a broad range of motivations. Cheap seat covers are bought to cover up messy seating in older cars, the more highly styled textile covers are bought to individualize as well as protect new cars, and sheepskin seat covers are bought for comfort as well as appearance.

In addition to seat covers, there is strong demand for other fabric accessories. Sales of car dust covers used on parked or stored cars, and for car nose covers (also called "bras"), used to protect the fronts of low slung sports cars, continue to be strong.

Also included in the soft goods category are back-of-the-windshield sunshades, made of cardboard, paper or metallized mylar, and used to protect car dashboards and interiors from intense sun. The year-round demand for these items varies around the country for obvious reasons. However, wherever the heat buildup behind a windshield can get high enough to crack a dashboard or scorch a driver's hands on a hot steering wheel, these protective accessories can be good sellers.

Auxiliary Lighting

This category includes such hang-on lighting items as quartz halogen fog lights and driving lights. For years, owners of low slung sports cars have imparted a rakish air to their vehicles by suspending fog lights produced by such foreign manufacturers as Hella, Cibie, and Robert Bosch. Today, there is a strong market in lower-priced, second line lighting items.

These lights have serious functions, of course. They provide an extra margin of safety. But they are also undeniably appealing to vehicle owners who want to individualize their rigs, especially light truck and utility vehicle owners who festoon their grilles and roll bars with auxiliary lights.

One category of aftermarket auxiliary lighting which is fading a bit is, predictably, the third stop light. These are now mandatory on new cars. Their sales surged just after the mandatory regulation took effect, as owners of older cars wanted to give a "new car look" to their vehicles. Besides which, they are clearly useful in reducing rear end collisions.

Electronic Accessories: Radar Detectors

Electronic accessories like radar detectors, automotive sound, and security systems represent the high end of the accessories business. Here, changes in technology happen faster than fashion trends. And it is also here, that aftermarketers face some of the toughest challenges from OE manufacturers and other types of retailers. But it is also here that the biggest profits can be made.

The radar detector industry has seen good growth in unit sales and total sales dollars during the past two years. How large is the market? Estimates of unit sales as of 1986 range from a low of 1.8 million units to a high of 2.5 million units. Estimates of average retail selling prices range from $125 to $160. Our estimate: 2.2 million units at an average price of $140, for total retail sales of $308 million.

This growth has attracted more competitors. In addition to such old-timers in the business as Cincinnati Microwave, Controlonics (Whistler), Electrolert (Fuzz Buster), Fox, Bell, and Cobra, the field now includes such new entrants as Kraco, Sparkomatic, Panorama, and Craig. As a result, manufacturers have experienced a compression in their margins and selling prices. One sales executive comments, "There has been some erosion of margins—and it could get worse." He believes that the increase in the number of competitors will, inevitably, lead to shakeouts.

Manufacturers of radar detectors are reacting to increased competition in a variety of ways. They are:

- Reducing prices on some of their older models (and some of their newer models as well).
- Introducing innovative product features which add value and dollars to the sale.
- Increasing their national, regional, and trade advertising.
- Targeting to narrow, upscale markets to

A NEW ACCESSORY TO SELL

There is a new accessory for retailers to sell. The product is dashboard covers, the accessories which lay over, or are glued to, a car or truck dashboard to protect it or to cover damage from fading, cracking, burns, and stains. There are universal SKUs which fit many car models, but the majority of business is for custom covers ordered by model and color. The dashboard covers product category is rapidly growing as consumers become aware that these products are available. The product is less than a decade old.

Industry participants are unclear about the size of the current market. Estimates range from $4.5 to $12 million at retail annually, and one manufacturer says the potential market is $200 million. Dashmat, the company which has the largest share of market according to industry participants, says in its promotional literature that it has sold 500,000 units in nine years.

The carpet-type, vinyl, and terry products are those available in universal applications, which one maker says people can "design and customize" by cutting the mats as they want for their vehicles. Molded dashboard covers are always custom ordered, and the great majority of the soft dashboard covers are also special orders. That means two extra trips to the retailer's store.

C. J. Condon, national sales manager for Dashmat, Phoenix, AZ, says the company has 5,000 patterns available in 14 colors. The company ships within 48 hours after the order is placed. The quick turnaround is the standard for the dashboard cover industry.

Dashmat just lowered its prices. Price competition is one indication that the product category is not only growing but also heating up. Condon says that she counted 21 other dashboard cover makers at a recent trade show. But "we invented the dash cover industry," she said, "and we have more sales than all the others combined. We're pretty hard to beat."

Condon predicts that "it's going to be an absolutely tremendous market." Dashy's John Rodriguez agrees about the market's potential and the increase in competition. He predicts only two or three companies left after that shakeout.

Roy Dean, national sales manager for Import Auto Products, Denver, CO, which makes the Coverlay products, says his company's vacuum-formed molded products come from 100 molds which fit more than 300 cars and are available in six colors. With the molded product, DIYers can use vinyl paint before they install the covers to achieve the particular shade of dashboard cover they want, or they can use the product as provided in the popular basic colors, according to Dean.

The sales for dashboard covers were, for the first several years, only in the Sunbelt states. Now sales are extending beyond the Sunbelt, and marketing is expanding to call attention to the damage that exposure to intense cold can cause the dashboard.

Initially, the product was aimed at owners of older cars, but Dashmat, Dashy, and Dash Designs, Tempe, AZ, say that their sales are predominantly for applications for newer vehicles. The Coverlay sales are currently skewed toward the older applications, says Dean, who comments that people are very interested in replacing damaged dashboards since they're keeping cars longer. "If a consumer goes to the dealership for a replacement, he may spend as much as $1,400 for an OE replacement and installation," Dean says.

Besides auto parts chains, dashboard cover makers sell product through specialty WDs servicing trim shops, to auto boutiques, in performance shops, and to new car dealers.

The potential for the product category was summed up by one supplier this way: "People are more and more appearance conscious. They're buying better quality seat covers for their cars and trucks. They're choosing the higher end polishes and appearance chemicals. Cars cost a lot of money these days and people are keeping them longer. They're willing to spend money to keep those cars looking good and to make them look better."

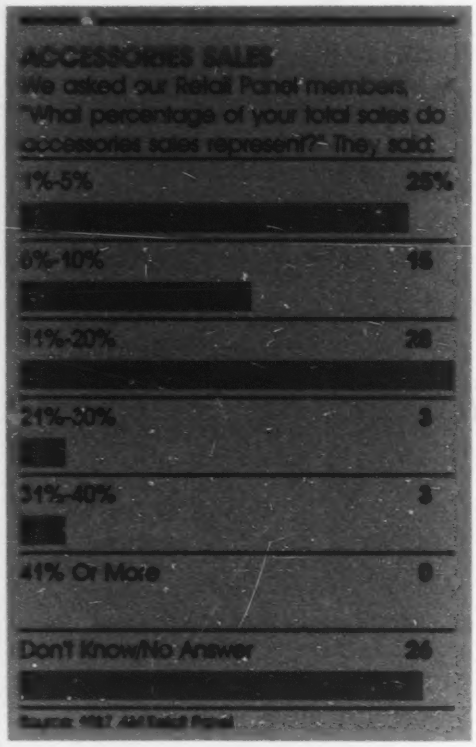
offset compressed margins in the mass merchandiser segment of the market.

- And, placing increasing emphasis on high-priced remote units (which have to be installed) as opposed to plug-in models. The principal connection between higher prices and remote mounting is theft. An expert says, "Radar detectors are valuable items which are subject to theft if they lie exposed in a parked car." As a result, he anticipates growing interest in remote mounting of units, particularly for the higher priced items.

Besides tougher competition, the "microwave war" between designers of radar guns and radar detectors is hot. According to Electrolert's sales director John Ross, "The latest models of radar guns produce fast bursts of energy; they are harder to detect with older, slower reacting types of radar detectors." Newer models use a dual microprocessor system for constantly monitoring the environment and reacting.

Automotive Sound

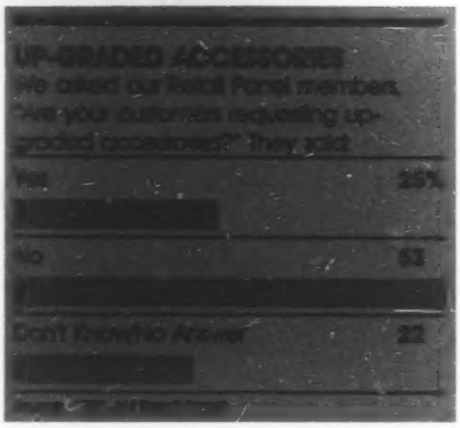
This is the largest single category within the vast automotive accessories business. We estimate that retail sales of aftermarket sound products reached $1.85 billion in 1984. Two of the largest manufacturers of aftermarket sound products believe that $2 billion dollars is a realistic estimate of 1986 sales.



ACCESSORIES SALES
We asked our Retail Panel members, "What percentage of your total sales do accessories sales represent?" They said:

Source: 1987 AM Retail Panel

However, like the radar detector market, the sound market has gotten squeezed around the mid-section. Carmakers (domestic as well as foreign), are now offering higher quality sound systems as standard equipment on their new cars.



UP-GRADED ACCESSORIES
We asked our Retail Panel members, "Are your customers requesting upgraded accessories?" They said:

The new car buyer can now obtain, on numerous models, the same type of features previously found only in aftermarket systems such as: superior speakers, cassette players with auto reverse, ETR, seek/scan, and memory. And, as might have been expected, many car buyers have been willing to go with the OEM products.

The losers in this squeeze play appear to be car dealers (most of whom would be happy to sell the car buyer an aftermarket upgrade which usually represents more profit to them), the car dealer expediters who specialize in supplying and installing accessories to car dealers, and those aftermarket sound manufacturers which have traditionally depended on mid-market/car dealer business.

The manufacturers and retailers serving both the low end and the high end of the vehicle car audio market are in better shape, however.

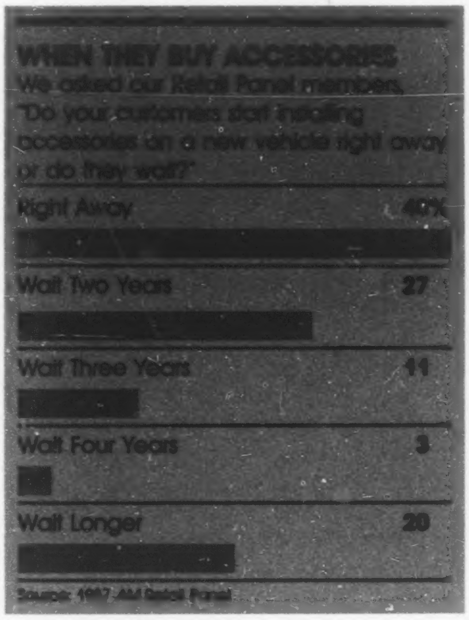
At the low end of the market, the customer is likely to be a DIYer who owns an older car or truck (about 4-6 years old in the experience of Kraco and Sparkomatic), a person who demands a better sound system than found in a pre-owned vehicle, someone not averse to ripping out existing speakers and heads to replace them with something better and, at the same time, someone who is price conscious. This DIYer tends to buy sound components in the $69 to $89 range. The DIYer shops for sound products at mass merchandisers' audio departments or at auto chain stores offering a good selection of sound products at competitive prices.

These days, mass merchandisers and auto chain stores are also finding a growing market in selling low-to-medium priced sound systems to owners of new or "newish" light trucks, mini vans and full-size vans. There are three reasons for this, according to Ed Anchel, president of Sparkomatic. They are:

- The phenomenal growth in sales of light trucks.
- The buyer of light trucks is apt to be a sound enthusiast and a DIYer. In fact, says Anchel, "This customer may have bought a light truck because he *is* a DIYer." (Don't forget to sell that toolbox for the back of this DIYer's truck.)
- And the automakers have left an opportunity for the independent aftermarket when it comes to light trucks by selling the trucks stripped or with relatively humdrum sound systems. The fact that light truck sales have skyrocketed recently has had substantial impact on the sound business, too.

When it comes to sound for trucks, California-based Kraco is particularly proud these days of its offerings for light truck applications. "In a box three feet high we have all the equipment needed for a sound system in a light truck, including front and rear speakers. The package is a terrific point-of-purchase tool," according to president Larry Kraines.

The other segment of growth in the sound business is at the high end. The customers who own upscale cars, tend to appreciate very high quality sound, and they are not afraid to spend $500 and $600 on various components and upwards of $2,000 for custom installation. These car owners tend to patronize shops which specialize in the sale and installation of high priced sound systems.



WHEN THEY BUY ACCESSORIES
We asked our Retail Panel members, "Do your customers start installing accessories on a new vehicle right away or do they wait?"

Source: 1987 AM Retail Panel

A wide gulf separates the high end and the low end of the market. They demand different products, different programs—even different trade names. For example, Audiovox serves the car dealer market and mass merchandisers under that name but its high end products for the audio specialist market are sold under the Hi-Comp name.

Compact discs may seem like the next natural step in car sound sales. However, one marketing director for an audio supplier says, "Consumers have not shown a great deal of interest in underdash CD players, partially because they are vulnerable to theft." Because of the theft issue, suppliers and customer will be looking for accessories that are placed in the trunk and are wired into the dash in the future. Many industry experts believe the trunk will be the next frontier for accessories.

Security Devices And Systems

In the never ending battle between professional thieves and automotive security systems designers, it is the retailers who win. Like it or not, automotive security is big business.The overall demand for security devices continues to rise.

Approaches for dealing with auto theft include *deterrents* (chiefly alarms), *cutouts* (to prevent a thief from starting the engine) and *mechanical locks* on various components of the system. Retailers should have no trouble selling both low and high end devices.

One of the newer security products retailers may want to look at is Quadra Lock. Quadra Lock, a patented device for hydraulically or pneumatically locking the brakes on all four wheels, is manufactured by Guardian Systems of Montebello, CA. How does Quadra Lock differ from other devices?

"Simple. Once you activate the system, by turning a special key, and depress the brake pedal, the brakes on all four wheels are locked in place. That car can not be driven or towed away until you insert the key to deactivate the system," according to Joe Murkijanian of Guardian.

Quadra Lock is basically a two-way valve. When activated it acts as a one-way check valve. Pressure from the master cylinder travels through the valve and will not return, locking the brakes.

Murkijanian says that, "Brakes will not lock-up while the vehicle is in motion due to the fact that all pressure must originate at the brake pedal. Simply turn and remove the special key and the system is on. The first time the brake pedal is depressed the system is activated. The system is completely mechanical so there is no chance of malfunction or defeat by electrical means." Quadra Lock was invented in Italy. Guardian distributed the product in the United States before acquiring, from the heirs of the inventor, the rights of manufacture it.

The DIY kit retails for about $248. Murkijanian says, "Any mechanic of average ability can install a Quadra Lock; that includes DIYers. If a car owner has the ability to change his master cylinder, he can install a Quadra Lock." He thinks the product is also a natural for any chain store, tire dealer or muffler shop which offers brake services.

More traditional are the intrusion alarms available for retail sale. They've proven so effective in deterring theft that many insurance companies offer discounts to car owners who install approved systems. Typical keyless intrusion alarm systems are armed passively and have 60 second exit and ten second entrance delays.

Even more sophisticated are the remote alarms. Using a miniature transmitter, a car owner can arm his system after he leaves the car and disarm it before he enters. In 1985, Anes Electronics introduced its RC-200 remote system which retailed for about $199, and had to be connected to the car's antenna. Anes' newest product in this series is RC-300, a much more compact version which is easier to install and a lot less expensive. The receiver has its own built-in antenna and is designed for under-dash mounting. The suggested retail price of $119 includes two transmitters small enough to hang on key chains.

Security experts will tell you that there is no device that cannot be circumvented by some professional thief. Alarms are becoming more sophisticated and they are useful in discouraging some thieves and warning the owner that an intruder is attempting to enter his vehicle. But, alarms can only deter, not prevent, theft. High-tech cars seem to attract high-tech thieves who come fully prepared to disarm alarms, break locks, and hot-wire ignitions. High-tech retailers will be ready for them, though, with even more inventive alarms.

And retailers will be ready for even more accessories sales with truck loads of the types of goodies vehicles owner love to buy. ■

INSTALLING EXTERIOR ACCESSORIES

Custom wheels wheel covers, sun roofs, roof racks, door edge guards, side molding, running boards, roll bars, truck mirrors, and pass-through windows are just some of the exterior accessories available today.

One factor in the exterior accessories market is the increasing interest of vehicle owners in professional sources of installation. Although these items are being sold every day by DIY-oriented retailers, there are numerous prospects for installing these products. Customers sometimes, understandably, hesitate to punch holes and/or cut holes in the roofs and bodies of their vehicles.

Retailers appear to have three options for dealing with the prospect of installing exterior accessories for the customer who is uncertain about his ability to do the work himself:

- Provide the advice and guidance the customer needs to do the work himself.
- Sell him the unit and refer him to one or more qualified installers who will do the work for a fee.
- Provide installation services at the store's own service bays.

An example of a company which has gone all-out for the first approach is Champion Auto Stores, New Hope, MN. If, for example, a customer needs guidance in installing a sun roof, any Champion sales person can lead him to the store's video disc player which has a Champion-produced segment devoted specifically to the topic of "How To Install Your Sun Roof." The customer is taken through the process step by step; he sees someone on the screen performing each operation.

The second approach for retailers is to refer the customer to a qualified installer. At this time, not many chains appear to have much enthusiasm for that approach. They tend to feel that recommending an installer opens the store to criticism, complaints—even a law suit—if the recommended installer performs poorly.

The third approach is to take the position that, "We are prepared to install anything we sell." Up to this time this has not been a popular position among chain stores. In the first place, the majority of the automotive chain stores have no installation capacity. In the second place, even the stores which have service bays tend to be cautious about the kind of service work they will accept. For example, the Advance Auto Stores, Roanoke, VA, now limit their automotive services to mounting and balancing tires. Most chains which service bays have broader menus of service than that; however, they tend to shy away from any job which entails hassles with customers about the quality of the work performed.

However, we appear to be at the point when some of the larger, more aggressive service-oriented chains will undertake installation of accessories in addition to selling these items over-the-counter.

One supplier notes that an increasing number of chain stores are interested in installing security devices. "In fact, they are interested in installing any item which is not hard to install and which will not result in come-backs." His company provides installation training for interested retailers. That training has, he says, resulted in increased sales.

MANAGEMENT '87 SERIES

POS: GETTING MORE THAN EXPECTED

POS systems are key elements in the success of retailers today. They will play an even greater role in the future.

by **Randy Allen**, Touche Ross

Retailers are getting much more from their point-of-sale (POS) systems than they expected. Consequently, retailers in all segments, including the aftermarket, are investing heavily in this technology and receiving benefits from its increased use, according to the 1986 National Retail Merchants Association/Touche Ross survey. But while respondents to the 1986 survey say they are getting much more from their systems than did retailers in similar 1977 and 1981 surveys, the full potential of these systems is still to be tapped.

The majority of North American respondents to the 1986 survey have fewer than 20 stores, and annual sales of slightly less than $50 million. This is true for stores across all segments within the retail survey. The average store sales per square foot (in the entire international respondent base) ranges from $116/sq. ft. in department stores to $540/sq. ft. in hypermarkets, a form of retailing prevalent in Europe. Average sales per employee are highest in variety stores with $951/employee, and lowest in softgoods specialty stores, with $82/employee.

Only 5% of survey respondents have no POS installation, while 45% of all respondents have fully converted to POS.

Point-of-Sale Environment

The respondents feel that POS is cost-justified. In fact, it pays for itself. As a group, the respondents spend slightly more than 1% of sales on management information systems (MIS). It is difficult to put a dollar value on the benefits achieved, in part because the store is not a laboratory, and because improvements in merchandising and operations can often be attributed to several different factors. Nonetheless, experience has shown that the information generated through POS is translated into bottom line dollars.

POS MERCHANDISING BENEFITS

Retail companies expect merchandising benefits from their POS systems. While the realization of the benefits has decreased, the absolute number of firms actually realizing the benefits has increased. For example (see the top line of this chart), in 1986 25% of the respondents to this study actually realized reduced markdowns from POS (56% initially expected times 45% realized expectation), while in 1981 only 14% (28% initially expeced times 51% realized expectation) did so.

	1986		1981	
	Initially Expected	Realized Expectation	[illegible]	[illegible]
Reduced markdowns	56%	45%	[illegible]	[illegible]
Reduced inventory levels	57%	42%	[illegible]	[illegible]
Increased inventory turns	57%	40%	[illegible]	[illegible]
Increased gross margins	56%	38%	[illegible]	[illegible]

Source: Touche Ross

More than 72% of the 1986 respondents who expected POS to lead to improved gross margin achieved their goal, whereas less than 20% in the 1977 survey realized that benefit.

Most of the 1986 respondents with POS send their data to a host computer, using a variety of methods, depending upon the type of store and the age of the equipment. Of those firms not currently communicating to a host, 13% plan to do so in the future, and the majority of those plan to start within the year.

The respondents have a very broad range of options when it comes to handling credit and accounts receivable. Bankcard and credit authorization is the most extensively used POS application. Among those who do not currently do this, 13% plan to do so within the next three years. Interestingly, at this moment very few firms have any concrete plans to implement debit card processing. This will be an application driven by market pressures rather than by retailers.

Among discount chains, SKU data is almost universally captured, while hardgoods chains (automotive parts retail stores fall within this category) have had significant progress in the use of price look-up. An additional 23% of the respondents across all store categories plan to implement price look-up in the future, an evidence of interest in the subject.

POS DATA COLLECTION BY SALES VOLUME (NORTH AMERICA)

Throughout North American, as in the rest of the world, most retailers regardless of sales volume collect POS data daily.

Sales In Millions	Collect Daily	Collect Weekly	Collect Bi-weekly	Other
Total	83%	6%	NA	11%
$1-50	84%	8%	NA	8%
$51-150	81%	5%	NA	14%
$151-250	89%	NA	NA	11%
$251-350	89%	NA	6%	5%
Over $351	80%	6%	NA	14%

Source: Touche Ross

Benefits Of POS

Retailers expect a lot from their POS systems, and the survey responses indicate that most retailers get it. The benefits most frequently sought are faster, more accurate information, and additional sales information. In the area of disappointments, some retailers did not realize increased sales or reduced bad debts.

Other than the most basic benefits, such as faster and more accurate information, the respondents have realized operational benefits from POS which they did not expect.

In fact, more companies in the 1986 survey received unexpected benefits than did companies in the 1981 survey. Given that initial expectation has increased substantially, the realization of benefits by those not expecting them speaks strongly

Randy Allen is a partner in the Newark, NJ office of Touche Ross. She invites comments on this article and can be reached at (201) 622-7100.

MANAGEMENT '87 SERIES

POS OPERATIONAL BENEFITS

Retailers expect many benefits from their POS systems. Study responses indicate that most retailers have realized the benefits they expected. The two benefits most frequently sought are faster, more accurate information gathering and additional sales information. In comparison to 1981, the expectations of benefits such as faster and more accurate information gathering have decreased. However, initial expectation of other benefits such as increased sales, peak season handling, and reduced bad debt have increased. Realization of these benefits has also increased.

	1986 % total sample		1981 % total sample
	Initially Expected Benefit	Realized Expected Benefit	[illegible]
Faster information	69%	79%	[illegible]
More accurate information	69%	76%	[illegible]
Additional sales information	67%	77%	[illegible]
Improved payroll & commission data capture	46%	77%	[illegible]
Reduced data entry	64%	72%	[illegible]
Reduced sales audit costs	59%	70%	[illegible]
Increased accounts receivable cash flow	50%	65%	[illegible]
Increased sales	54%	42%	[illegible]
Reduced bad debt	57%	61%	[illegible]
Ability to handle peak season	61%	72%	[illegible]
Improved salesperson productivity	63%	67%	[illegible]
Improved salesperson morale	62%	66%	[illegible]
Improved store image	64%	71%	[illegible]

Source: Touche Ross

in favor of the ability of POS to deliver measurable benefits to retailers.

On-Going Operations

U.S. firms generally began to convert to POS earlier than companies in other countries, so they are more completely converted. In general, the useful life of the respondents' equipment is considered to range from five to 11 years. Since the installed base (worldwide) has a mean age of about four years, many firms in the survey are thinking about replacing their equipment.

Approximately 50% of the firms, regardless of segment, plan to begin replacing equipment within the next three years. A substantial percentage of the other firms plan to wait five years.

There is no overwhelming reason as to why respondents have replaced their POS equipment. New functions are the reasons given more often by specialty stores, while low cost and unsatisfactory performance also are cited as reasons for replacement.

Today, 64% of POS equipment maintenance is done by the respondents' vendor. This is a downward trend which is expected to continue as the equipment becomes more reliable and more modular, making it much easier to repair by swapping components. Some 72% of survey participants got response within four hours of reporting a problem.

Technical Trends

Among hardgoods specialty stores, like auto parts chains, 50% key at POS, much higher than in 1981. Wanding and scanning at POS are much less common, although the practices have grown since 1981. In spite of the small number of firms currently scanning, almost 40% (across all segments) plan to introduce this procedure.

What types of machine-readable tickets are retailers planning to introduce? The dominant preference appears to be EAN/UPC, which is preferred by almost half the respondents. The bar code is in the plans of 21% of the discounters, 33% of the department stores, and 29% of the hardgoods specialty stores. A number of discount companies also show serious interest in OCR-A (21%).

The percentage of hardgoods specialty stores expecting to use universal price codes (UPC) is up from 13% to 33% in the past five years. The smaller firms are less likely to use UPC.

For the most part, as the size of the firm increases, so does the frequency of electronic communication with suppliers. For instance, among firms under $50 million, 73% state that they have no plans to institute electronic communication, while a majority of firms over $150 million plan to do so within the next year. The primary data being transmitted to suppliers is for invoices and purchase orders.

The complete results of this survey have been published in book form as "Point-of-Sale: Current Trends and Beyond." It is available from NRMA, 199 W. 34th St., New York, NY 10001, (212) 244-8780. ■

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	postage/handling	+2.00
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The Marketing/Business Magazine For The Retail Aftermarket

JUNE 1987

THE 100 LARGEST AUTOMOTIVE RETAILERS

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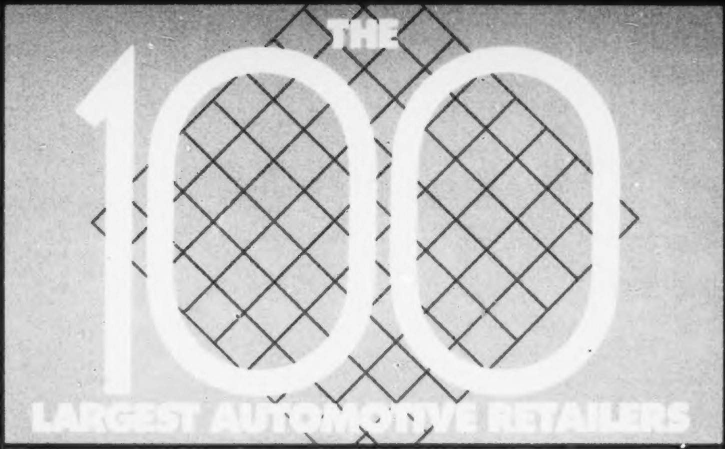

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PUBLISHER'S NOTES

MAKING LISTS

That old conversational gambit, "Wonder what he/she makes?" is endemic to any industry.

In ours, a parallel gambit is, "Exactly how big ARE they?"

In this issue, we attempt to answer that question with our list of the 100 largest automotive retail chains. As you read the list, calculator in hand, (you are going to calculate sales per store, aren't you?), you'll miss some familiar big names. That's because we built this list using store locations as the primary criterion, and we limited it to retailers whose sales are more than 60% to the automotive DIYer. NAPA, for one, is not there.

It's very interesting reading and a good reference piece, as is the rest of our issue.

Senior news and feature editor John Wirebach's finale on advertising in our market is the response from more than two dozen automotive sellers to whom we showed the very hot second article in this series. John reports on the three most common responses.

Research editor Phil Katcher tackles computer hardware for our specific marketplace. And Touche Ross contributed a fine piece on planning your company's computerization. And there are two pages of statistics on our market.

Then there's Detailing The Market, Merchandising page, Market Line, and more.

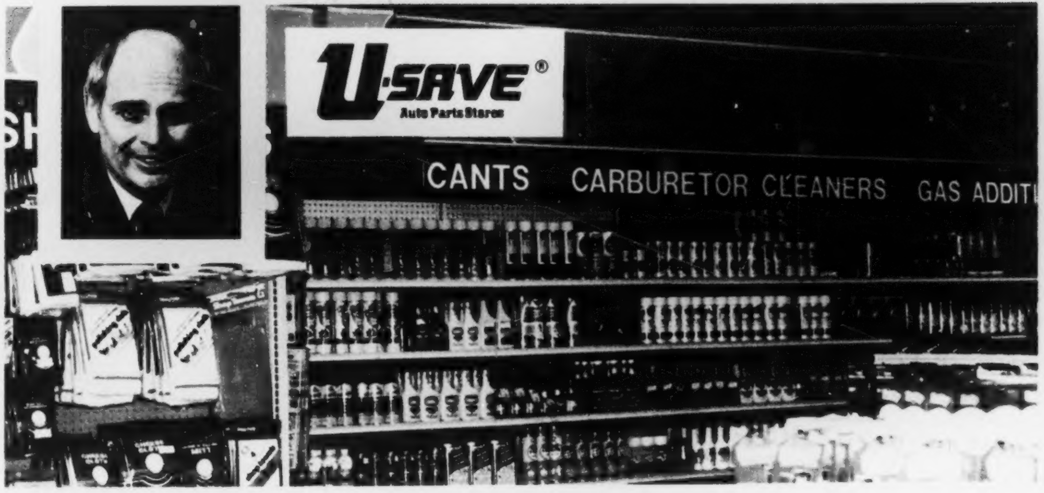
Let us know how you liked it! ■

Sarah Frankson,
Publisher

DETAILING THE MARKET

IN-STORE FOCUS

PROFILE: U-SAVE AUTO PARTS STORES INC.
Headquarters: 7640 Densmore Ave., Van Nuys, CA 91406, (818) 782-7340
Stores: 8
Total Corp. Sales: (est.) $12,500,000
Average SKUs: 15,000
Founded: 1975
Region Covered: Southern California



Recently, a weary customer stopped at his local U-SAVE outlet in search of a part for his 1964 VW. He had shopped all of Southern California's "Big Guns"—and was reportedly disappointed every time. U-SAVE had the part he wanted, at a reasonable price—and at 7 p.m., when many other outlets were closed.

This kind of service is part of founder Merv York's method of beating the competition: "You have to be there when they're not."

Surrounded on all sides by large chains, the relatively tiny U-SAVE chain has managed not only to stay afloat, but also to carve out a niche in the intensely competitive Southern California market.

An APAA vice president and a member of its Board of Directors, York has a long history in the automotive aftermarket. The former president of Crown Auto in Minneapolis, York stayed with the company from 1962 until 1975. After moving to the Southern California area, he spotted a small furniture store for sale. He bought it, and converted it to an auto parts store, with business offices upstairs. That was the first U-SAVE store.

York runs his chain with a firm hand. Basically, corporate headquarters calls the shots on everything from ordering to color schemes, although input from store managers is considered.

Ordering is strictly controlled through corporate headquarters by York himself and his son Scott, the firm's executive vice president. Inventory sheets are regularly sent to each store, and the managers indicate, what is needed based on their own particular area. But York and his son make the final decisions.

Part of the reason for such tight control of ordering procedures is the fact that U-SAVE, with a store average of 15,000 SKUs, carries an extensive inventory in order to meet the competition head-on.

Store managers do have a voice in display and staffing decisions, but they report to a director of store operations and his assistant. Each of these men is responsible for four stores. They are out in the field almost constantly, taking an active role in employee concerns such as hiring and firing; how an individual store is merchandised; and so forth. And, says a company spokesperson, if a particular store is a man short-handed, the director of store operations or his assistant is likely to fill in.

Most problems on the store level are solved by these two men—the chain of command continues up from them to York and his son. The firm's chief financial officer, Mo Han, completes the corporate triumverate.

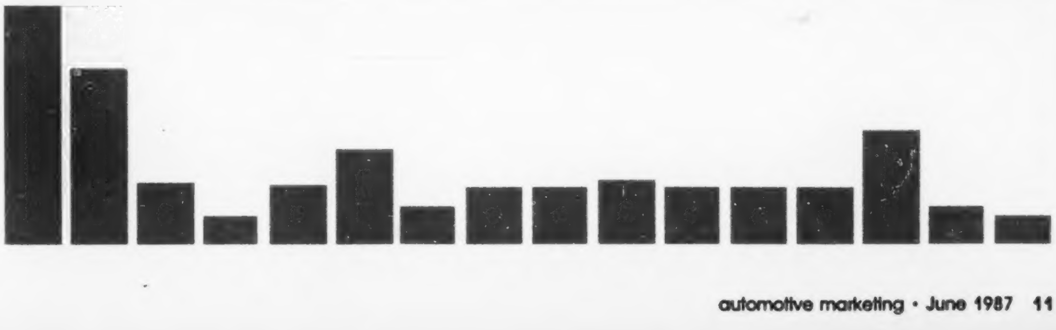
For consumers U-SAVE outlets are easy to spot. They feature bright red exterior signing, and a multi-colored interior decor that favors a big, bold and bright approach. Although some stores are as large as 12,000 sq. ft., the average is about 9,000 sq. ft. With such a large number of SKUs per store in such a relatively small space, merchandising is all-important. Here is where managers contribute heavily: they can merchandise their own stores as they see fit, depending on customer mix and individual market area.

Store hours at U-SAVE are extensive. That kind of intense schedule is part of Merv York's way of doing things. When asked what makes the U-SAVE such a success, he frankly answered, "We work our asses off."

PROFILE: 1981 MODEL YEAR CAR DIYers

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study*, we look at DIYers who drive 1981 model year cars, the age of car on which most DIY work is done this year.

			Age					Income				Hours Per Month Spent On DIY			
Total	**Male**	**Female**	**-25**	**25-34**	**35-44**	**45-54**	**55 +**	**-$20K**	**$20-30K**	**$30-40K**	**+40K**	**-1 Hrs**	**1-5 Hrs**	**6-10 Hrs**	**11 + Hrs**
100.0%	73.6%	26.4%	8.5%	24.5%	34.9%	14.2%	19.8%	22.6%	27.4%	17.0%	20.8%	23.6%	48.1%	16.0%	10.4%



DETAIL

85%

more passenger cars were registered in New Hampshire in 1985 than were registered there in 1975, making it the state with the fastest growing passenger car population of all 50 states, according to Motor Vehicle Manufacturers Association.

THE AUTOMOTIVE MARKETING INDEX

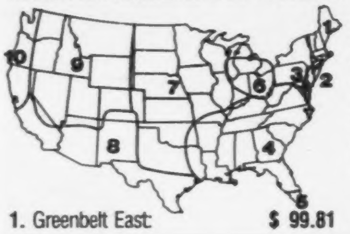
THE 1986-87 *AUTOMOTIVE MARKETING* MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index. The products include a non-resistor spark plug; an oil filter; a can of 10W30 motor oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

MARCH 1987 NATIONAL AVERAGE MARKETBASKET PRICES

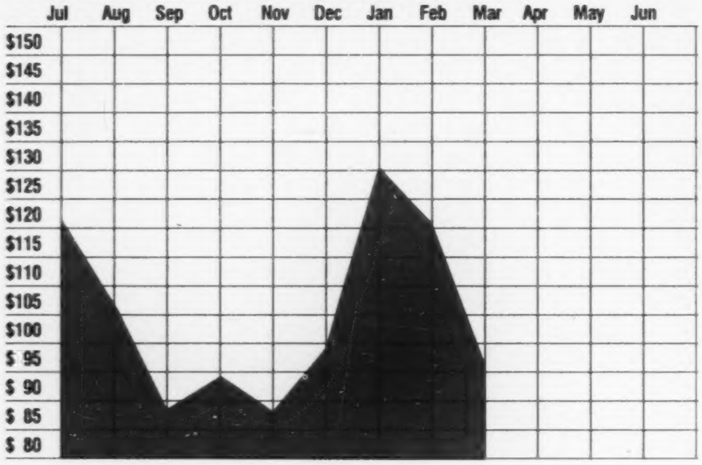
A non-resistor spark plug:	$ .71	A gas-charged shock:	$ 11.52
An oil filter:	1.95	One gallon of antifreeze:	3.36
A can of 10W30 oil:	.69	One pair of wiper refills:	2.32
A can of paste wax:	3.23	A 40-month battery:	32.22
An AM/FM/Cassette:	41.62	**Total:**	$ 97.62

MARCH AM MARKETBASKET PRICES BY MARKETING AREA



1. Greenbelt East:	$ 99.81
2. Megapolis East:	82.05
3. Smokestack East:	$100.04
4. Old South:	92.46
5. Caribbean South:	112.19
6. Smokestack Central:	115.53
7. Grainbelt Central:	97.52
8. Spanish West:	91.67
9. Desert West:	97.78
10. Greenbelt West:	98.30

NATIONAL AVERAGE MONTHLY 1986-87 AFTERMARKET BASKET PRICES



AFTERMARKET BUSINESS INDICATORS

	Unit/Base	Mo/Qr	Current Period	Prior Period	Year Ago, Same Period	Low (61-87)	High (61-87)
Gross National Product	billion	4Q	$4,268.4	$4,240.7	$4,087.7	507.1 1Q 61	4,268.4 4Q 86
Retail Sales	billion	Mar	$124.7	$124.4.8	$116.7	–	–
Consumer Confidence	85 = 100	Feb	92.3	86.0	97.3	–	–

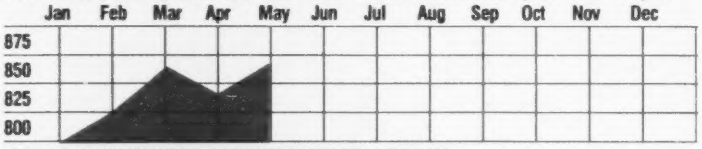
1987 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various aftermarket-related common stocks in various exchanges for the 52 week period prior to May 8.

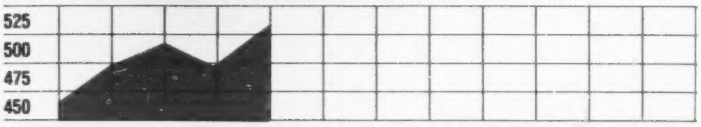
	Exchange	52-week High	52-week Low	5/8 Quote	P-E Ratio
Armor All	OTC	20⅜	10¼	20¼	25
Cardis Corp.	AMEX	10	2⅝	4⅜	4
Champ Parts	OTC	12	3½	8½	39
Champ Spk Plg	NYSE	14¼	8¾	14	–
Chief Auto	OTC	19¾	4¼	15	17
Crown Auto	OTC	4⅛	3	3⅜	–
Dana Corp.	NYSE	48⅛	25½	45⅞	27
Durakon	OTC	18	9⅞	10½	13
Echlin	NYSE	25⅜	15¼	19	16
Facet	NYSE	20⅜	8¾	20⅜	28
Genuine Parts	NYSE	54¼	40	52	22
Grand Auto	AMEX	25¼	15¾	20⅛	168
Mr. Gasket	OTC	15	4⅜	5½	14
Prkr Hannfln	NYSE	37⅝	20¼	34½	18
Pennzoil	NYSE	95	48⅛	84	43
Pep Boys	NYSE	53	31¼	46⅞	30
Perry Drugs	NYSE	20⅞	12	12½	36
Purolator	NYSE	40⅝	15	36¾	54
Quaker State	NYSE	31¾	23½	26½	15
Republic Auto	OTC	9¾	6⅜	7	–
Rite Aid	NYSE	39¾	26¾	33⅞	18
Sealed Power	NYSE	35⅜	23⅛	33¾	14
Southland	NYSE	60½	44	48¾	8
Stan Mtr Prod	NYSE	25⅜	16⅛	20⅝	15
Superior Ind	AMEX	19⅜	11⅛	18⅜	12
TBC Corp.	OTC	13¼	5¾	13	14
TRW	NYSE	112	83¾	101¼	15
Tenneco	NYSE	50½	36	48¼	–
Tracor	NYSE	24⅛	16½	20⅛	21
Trak Auto	OTC	18¾	11	14	67
Triad Systems	OTC	15⅛	8½	12¾	25
Witco	NYSE	47⅜	31⅛	43¾	15

DOW JONES 65 COMPOSITE STOCKS

Dow Jones 65 composite stock and *AM's* 17 aftermarket stock price as of May 8.



AM 17 COMPOSITE AFTERMARKET STOCKS



PRODUCT OF THE MONTH: ANTIFREEZE

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study*, we look at the individuals who purchased and installed antifreeze during a 12-month period.

			Age					Income				Hours Per Month Spent On DIY				Number Of Cars Responsible For		
Total	Male	Female	-25	25-34	35-44	45-54	55+	-$20K	$20-30K	$30-40K	40K	-1 hr	1-5 Hrs	6-10 Hrs	11+ Hrs	1	2	3 or More
100.0%	67.7%	32.3%	13.4%	28.5%	25.7%	13.7%	18.7%	28.9%	28.0%	13.9%	18.6%	15.5%	56.9%	17.1%	9.6%	37.3%	37.9%	24.8%

MARKET LINE

Battery Sales Reach All-Time High, But Suppliers Are Still Worried

"This will be yet another year of gross uncertainty," was the way one battery supplier characterized the battery aftermarket for 1987.

"It should be interesting, though," he continued. "The Winter went to Europe and the year's sales started slowly, although they picked up in February and March. You have companies trying to steal market share from each other with a lot of pricing actions. You have more factories than production. Then, there're some changes coming up at the OE level. And then we have two major suppliers merging."

We thought this supplier's analysis a nice summation of the current battery market. According to the suppliers we spoke with, three factors will influence the market.

- Poor sales at the beginning of the year.
- Intense competition among suppliers for distribution which will become even more intense if two major suppliers merge.
- Changes at the OE level that will affect the way batteries are sold.

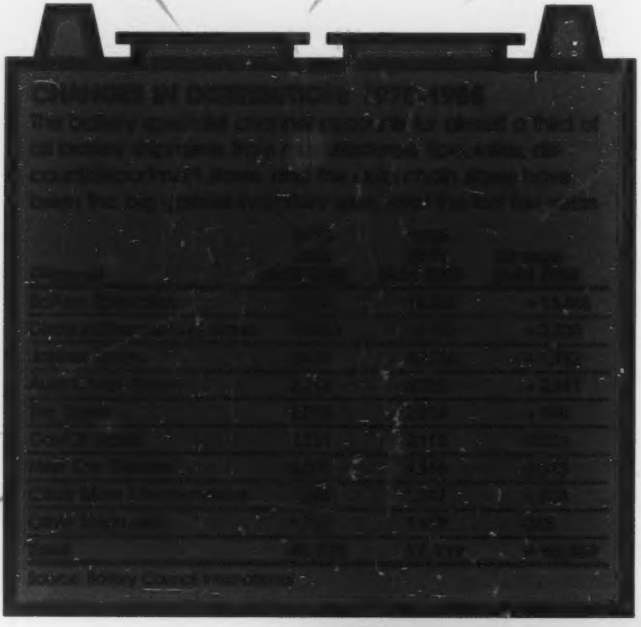
Let's look at these factors.

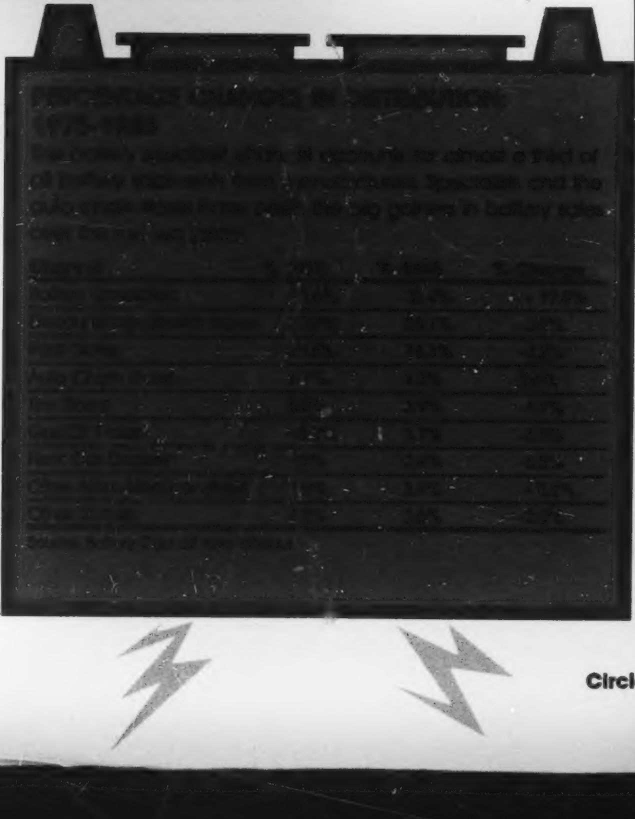
The year did start slowly in sales. Another supplier used an obscenity to describe January sales. Most parts of the country enjoyed a mild Winter without the extremes of temperatures needed to kill weak batteries.

However, early 1987 shipments were also slowed by very high levels of shipments in the last four months of 1986. End of year shipments are usually high (simply because most batteries are sold in Winter and retailers stock up). Last year's sales also started slowly, so 1987 could be a mirror of 1986 in that regard.

Early 1987 found retailers still clearing out inventories from 1986, the best year in automotive battery shipment history. According to Battery Council International (BCI), 60.3 million automotive replacement batteries were shipped by suppliers in 1986. We should point out that the BCI totals do not include shipments of other storage batteries, such as marine, motorcycle, golf cart, and other batteries. Automotive batteries typically make up about 80-85% of the total battery sales.

Best estimates from the suppliers we spoke with indicate that shipments should





Circle 11 →

remain in the 60 million range in 1987. At the distribution level, specialists and auto stores will keep or slightly increase their shares. But what's not so clear is who will sell replacement batteries to those specialists and stores.

There is intense competition among battery suppliers. The big news for 1987 is the proposed sale of General Battery Co. (GBC), Reading, PA to Exide, Horsham, PA. In fact, by the time you read this, the sale may be approved by the Federal Trade Commission.

Based on our interviews, here is the way the merger and other market strategies and tactics might affect the battery market in 1987.

PRIVATE LABEL BATTERY SHIPMENTS BY CHANNNEL OF DISTRIBUTION

The battery specialist channel accounts for a slightly lower percentage of private label sales.

Channel	Units Sold (Add 000)	% Total Sales
Battery Specialists	13,666	31.6%
Discount/Department Stores	12,968	30.0%
Jobber Stores	4,353	10.1%
Auto chain Stores	4,093	9.5%
Tire Stores	1,992	4.6%
Other Mass Merchandisers	1,940	4.5%
Car Dealers	1,811	4.2%
Gas/Oil Stores	1,757	4.0%
Other Outlets	601	1.5%
Total	43,181	100%

Source: Battery Council International

BRANDED BATTERY SHIPMENTS BY BY CHANNNEL OF DISTRIBUTION

Parts stores (the WD/jobber channel) sell the largest percentage of branded batteries, judging from battery shipments by manufacturers.

Channel	Units Sold (Add 000)	% Total Sales
Jobber Stores	6,082	43.6%
Battery Specialists	4,856	34.8%
Auto Chain Stores	1,230	8.8%
Gas/Oil Stores	361	2.6%
Tire Stores	222	1.6%
Discount/Department Stores	213	1.5%
Car Dealers	154	1.1%
Other Mass Merchandisers	8	0.1%
Other Outlets	812	5.9%
Total	13,938	NA

Source: Battery Council International

The largest battery supplier is Johnson Controls, Milwaukee, WI, with at least 25% and probably closer to 30% of the total market. Johnson only has three major customers, but they're all long-term customers and the kind of customers you want to have: Sears, Interstate Battery System, and a good portion of the NAPA business (GBC also has some of that business). Johnson has no branded battery on the market and sells exclusively private label.

Sears is the single largest distributor of batteries in the country and makes up about half of Johnson sales. Other suppliers admit no one else has the capacity to supply Sears so those sales seem to be safe against predators. Interstate is the largest battery specialist and sells about four million batteries a year.

Although other suppliers constantly joke that someday Johnson Controls will simply take over the whole market, that's not likely to happen. For one thing, much of its capacity is taken up by Sears (about half), and, for another, Johnson is not interested in playing the discount game so popular today in the battery market.

The two fastest growing battery manufacturers are AC-Delco and Exide.

AC-Delco, part of General Motors in Detroit, enjoys the second-best brand awareness in the market (behind Sears, ahead of Exide), and sells about 15-20% of the market. This has cost AC-Delco a lot of money in consumer advertising.

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Competitors say Delco has increased its sales by spending on advertising, acting as a feeder for its accounts, correct consumer pricing, and shrinking its margins at all levels.

"Sure, Delco can say it doesn't need as much a profit as other companies," a competing supplier said. "It also has the OE connection, the whole Delco line, and a lot of customers feel they have to be connected to that. Delco is extending great credit terms and selling on consignment, so the distributor's investment is lighter. You have to wonder how long will it continue? Are they interested, long-term, in profit, or market share?"

TOTAL 1985 BATTERY SHIPMENTS BY CHANNEL OF DISTRIBUTION

The battery specialist channel accounts for almost a third of all battery shipments from manufacturers. Specialists and the auto chain stores have been the big gainers in battery sales.

Channel	Units Sold (Add 000)	% Total Sales
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
Auto Chain Stores	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
Other Mass Merchandisers	[illegible]	[illegible]
Other Outlets	[illegible]	[illegible]
Total	[illegible]	[illegible]

Source: Battery Council International

The other fast growing company is Exide, a company with a 10-15% market share. It is the company that arouses strong emotions in other suppliers. Described as a very aggressive marketer, competitors concede that Exide has been "eating other suppliers alive" since the new management team came on board (in 1985, a team of ex-Tenneco executives led by president/CEO Arthur Hawkins took over Exide operations). Since then, among other gains, Exide won such major customers as the Checker/Schuck's/Kragen business from GBC and the Western Auto business from GNB.

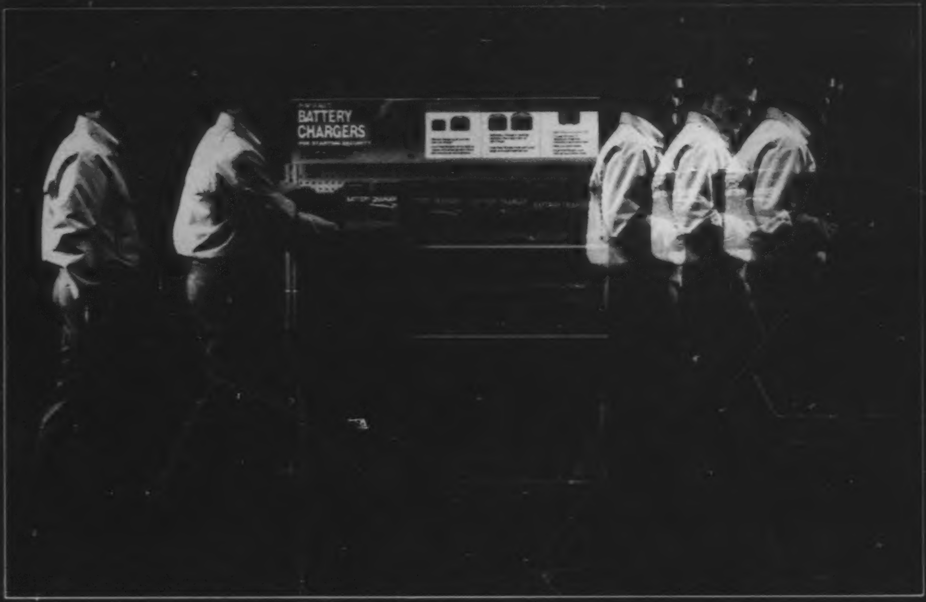
"If Exide has a serious problem, it's insufficient capacity," a competitor said. "They badly need more productive capacity and they'll get the capacity with GBC."

If the proposed sale of GBC to Exide goes through, the combination firm will become the primary source of batteries for most of the auto chains in the country. Competitors couldn't find any weakness in the sale except to wonder about the effect on Exide's debt load of paying $145 million. The sale will about double the market share of Exide since GBC has roughly the same share as Exide, but mostly in private label sales. The combination of strong private label and branded sales will make them a real force in the battery market.

GNB, St. Paul, MN, received high marks for engineering new products and working on niche marketing. It also enjoys about a 10-15% market share. "They work real hard to develop specialty products—auto, truck, marine batteries—that act as a plus to someone else's line," a supplier said. Several competitors had thought GNB would wind up purchasing GBC. "They're a quality producer," still another supplier said. "They choose not to compete on price and offer a nice bag of programs and products."

Behind the five larger companies are three smaller, but active national battery suppliers, all grouped at about 3-5% of the market. East Penn Battery, Lyons, PA, is active in private label batteries for oil companies. Like GNB, it gets good marks for its products. Douglas Battery, Winston-Salem, NC, drew praises from competitors for its programs that elimi-

Shelf Propelled!



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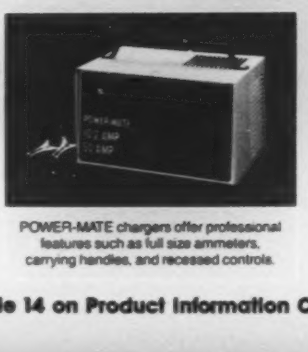

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nate the need for a battery specialist. Competitors wonder, however, if they're trying to grow too fast. Pacific Chloride, Columbus, GA, has retrenched and reorganized its efforts under its new Australian ownership. The short line Pulsar battery may give it a boost in sales. One competitor said, "They have to find their destiny yet."

Although these are not the only companies in the battery industry (there are perhaps 40 more regional suppliers such as Standard, Voltmaster, Estee, Prime, etc.), they are the major players in the game. One supplier suggested that the market might soon see several regional suppliers banding together and becoming a national force.

Battery suppliers also see a couple of technological factors that may be important influences on the battery market in coming years. For one thing, newer engines have higher temperatures and therefore a poorer environment for the battery. "People forget," a supplier said, "higher temperatures, both outside and under the hood, are very bad for batteries. The per vehicle replacement rate is higher in the U.S. than in Canada. It's higher in Phoenix than in International Falls. It's just that failure shows up in the Winter. So, emission controls make the engine run leaner and hotter. Aerodynamic vehicle designs leave less free space for heat to dissipate. Some of the new cars, such as the Ford Taurus, have gone to larger batteries to compensate for higher under-the-hood temperatures. Batteries may not be living as long in some of the new cars. We don't have enough evidence yet."

BATTERY SHIPMENTS BY YEAR (add 000)

In 1986, storage battery shipments reached 60 million units for the first time. Automotive batteries account for about 80% of the total.

Year	Units Shipped
1977	54,5[illegible]
1978	56,3[illegible]
1979	53,74[illegible]
1980	50,063
1981	53,5[illegible]
1982	54,2[illegible]
1983	56,1[illegible]
1984	59,3[illegible]
1985	58,6[illegible]
1986	[illegible]

Source: Battery Council International

When you combine the higher heat with the expected rise in increased parasitic loads in new cars because of increased electronics, you have a severe problem for battery makers. To compensate, battery makers foresee batteries with higher cold cranking amps (up to 850 compared with today's batteries that top out at about 650), along with increased requirements for reserve capacity (the measure of how long a battery can operate if the car's charging system fails). Suppliers say OE manufacturers may also choose to use 24-volt batteries in the future, or even two battery systems with a starting battery and a deep cycle battery to compensate for parasitic loads.

Along with technology, there are questions about the environment facing the industry. Lead and acid are both hazardous wastes and suppliers are good about staying within Environmental Protection Agency guidelines. But, in recent years, with low lead prices (although lead prices are currently rising), a larger number of batteries are not recycled. A supplier suggested as many as 20-30 million batteries (mostly non-automotive) a year are just abandoned. "Somebody's going to wake up in DC and get ticked off," he said, "They could easily make the industry clean them up. It's a major league problem the industry is just ignoring."

While these are factors to consider for the long run, this year will see more bitter battling for market share. Another 60 million batteries will be sold and it will be interesting to see who sells them. ■

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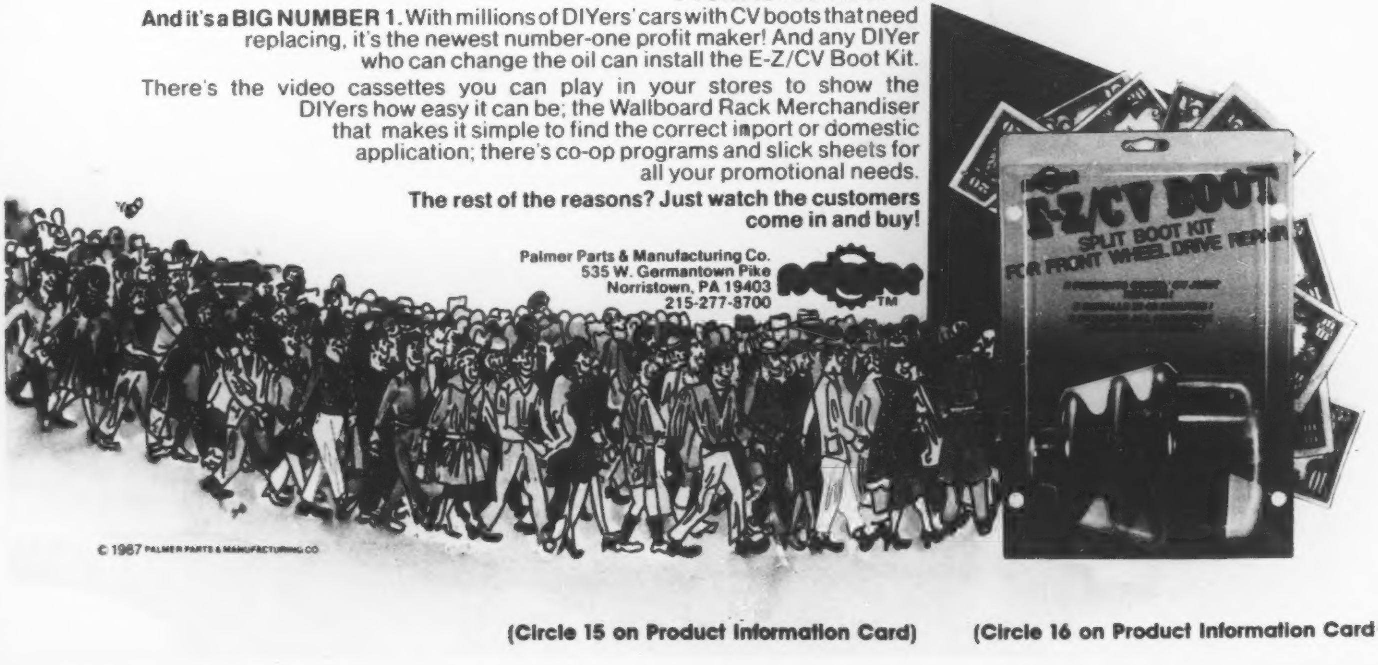
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SPLIT BOOT KIT
FOR FRONT WHEEL DRIVE REPAIR

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AM's 100
LARGEST AFTERMARKET RETAILERS

The aftermarket is not a simple market. When we decided to publish our list of the largest automotive retailers, we had some hard choices to make, and a lot of investigation to do. Here's how we went about it. First, we made the number of stores in operation our first consideration in determining the largest 100 chains, rather than the companies' sales volume. Sales volume is often difficult to verify, particularly from the privately held companies. Second, we list only companies which are primarily aftermarket retailers, with 60% or more of their sales across the counter to DIYers. This eliminates, of course, many of the large WD and jobber chains and programmed distributors such as NAPA. It also eliminates tire store chains, unless their sales were more than 60% general automotive aftermarket products to DIYers. When one company owned several chains operating under different names we consolidated their data under the parent company.

There were many steps in determining this list. We began with questionnaires sent to every chain headquarters we knew of. In many cases, we followed up with phone calls to chain headquarters. Then we checked our data against other sources, ranging from directories to news stories to credit bureaus. We even checked recent newspaper advertisements to determine the number of stores chains operate in different regions.

The list below is the result. We plan to keep our information current, and ask that changes and updates be sent to us as soon as the information is available. ■

Rank	Chain	Stores	$ Sales (+000)*	CEO	Address and Phone
1.	Checker/Schuck's/Kragen	480	500,000	G. Daniel Siewert III	15395 S.E. 30th, Suite 300, Bellevue, WA 98007 (206) 644-2002 645 Missouri Ave., Suite 400, Phoenix, AR 89012 (602) 265-9200
2.	Chief Auto Parts	465	256,000	Mike Manor	12200 Park Central Drive, Dallas, TX 75251 (214) 239-2256
3.	Auto Shack	355	360,000	Peter Formanek	3030 Poplar Ave., Memphis, TN 38118 (901) 325-4200
4.	Otasco, Inc.	267	324,000	Jerry L. Goodman	11333 E. Pine, Tulsa, OK 74116 (918) 43-7171
5.	Western Auto	251	700,000	John T. Lundegard	2107 Grand Ave., Kansas City, MO 64108 (816) 346-4490
6.	Auto Works	236	145,000	Jack M. Gallagher	5400 Perry Dr., Pontiac, MI 48056 (313) 334-1300
7.	Trak Auto	212	190,000	Ben S. Kovalsky	3300 75th Ave., Landover, MD 20785 (301) 731-1200
8.	The Pep Boys	180	486,000	Benjamin Strauss	3111 W. Allegheny Ave., Philadelphia, PA 19132 (215) 229-9000
9.	Nationwise, Inc.	178	200,000	Saul Levy	3750 Courtright Ct., Columbus, OH 43227 (614) 239-1111
10.	Steego Auto Parts	147	150,000	Russell Duncan	319 Clematis St., West Palm Beach, FL 33401 (205) 655-9700
11.	Whitlock Corp.	146	141,000	R. Keith Green	1375 Mount Prospect Rd., Des Plaines, IL 60017 (312) 699-5040
12.	Champion Auto Stores	125	60,000	Robert "Bud" Rose	5520 North Country Rd., New Hope, MN 55428 (612) 535-5984
13.	Advance Stores Co.	116	55,000	Nicholas Taubman	802 Kerns Ave., Roanoke, VA 24015 (703) 345-4911
14.	Grand Auto	113	165,842	John F. Goodsell	7200 Edgewater Dr., Oakland, CA 94621 (415) 568-6500
15.	Super Shops	91	90,000	Harry Eberlin	1499 S. Tippecanoe Ave., San Bernardino, CA 92408 (714) 796-0266
16.	Guarantee Auto	77	45,000	Arnold Busse	5611 E. 71st St., Indianapolis, IN 46220 (317) 849-4000
17.	O'Reilly Automotive (Ozark)	75	28,000	Charles O'Reilly	233 S. Patterson, Springfield, MO 65802 (417) 862-3333
18.	Aid Auto	74	13,000	Philip L. Stephen	475 Doughty Blvd., Inwood, NY 11696 (516) 371-4330
19.	Hi-Lo Consolidated	73	90,000	James Turnbow	14530 Wunderlich Dr., Houston, TX (713) 444-9052
20.	Discount Auto Parts, Inc.	65	48,000	Denis L. Fontaine	4900 Frontage Road South, Lakeland, FL 33802 (813) 687-9226
21.	ADAP	60	50,000	Frank Corella	660 Bodwell St., Avon, MA 02322 (617) 587-8400
22.	Hi-Gear Tire & Auto Supply	56	30,000	Murray Friedman	110 Ritchie Rd., Capitol Heights, MD 20743 (301) 336-3000
23.	Pettigrew-Smith Auto Supply	55	50,000	Ken Smith	8119 Jensen Dr., Houston, TX 77093 (713) 695-3613
24.	R&S/Strauss	54	70,000	Don Schlenger	1835 Burnet Ave., Union, NJ 07083 (201) 686-8200
25.	Crown Auto	53	36,769	Floyd R. Adelman	7550 Corporate Way, Eden Prairie, MN 55344 (612) 937-9000
26.	Big Bear Stores	50	31,000	Jerry Hammerel	640 54th Ave. N., St. Cloud, MN 56301 (612) 287-9000
27.	Action Auto	48	45,000	Dick Sabo	2128 S. Dort Hwy, Flint, MI 48507 (313) 235-5600
28.	Mark C. Bloome	47	63,000	Jerry Rogers	1000 N. Krammer Place, Anaheim, CA 92806 (714) 632-9660
29.	Fletcher Enterprises	44	43,000	Jerry Fletcher	2601 N. 32nd Ave., Phoenix, AZ 85009 (602) 269-1351
30.	Quality Stores	40	160,000	John L. Hilt	1460 Whitehall Rd., North Muskegon, MI 49445 (616) 744-2491
31.	Forest City Auto Parts Co., Inc.	35	12,000	Arnold Bellowe	25350 Rockside Rd., Cleveland, OH 44146 (216) 439-5756
32.	Taylor Parts, Inc. (TPS)	33	17,000	James M. Taylor	208-210 E 3rd, Andalusia, AL 36720 (205) 222-6534
33.	Ben Pilla Speed Shops	31	10,000	Ben Pilla	118 N. Black Horse Pike, Bellmawr, NJ 08031 (609) 931-4041
34.	Linkon's Auto Supply	30	11,000	Leonard Linkon	2720 E. 2nd St., Centralia, IL 62801 (618) 533-1311
35.	Master Auto Service Corp.	28	19,000	Archer Green	2000 Colonial Ave., Norfolk, VA 23517 (804) 622-1821
36.	Parts City, Inc. (Alexander Seewald)	28	11,000	Andy Moye	1420 Seaboard Industrial Blvd., Atlanta, GA 30377 (404) 355-3411
37.	Twin "B" Auto Stores	27	20,000	H.R. Graham, Jr.	5957 E. Virginia Beach Blvd., Norfolk, VA 23502 (804) 461-7723
38.	Ace Auto Parts	26	17,000	T.D. Cox	4351 34th St. North, St. Petersburg, FL 337[illegible]4 (813) 526-1664
39.	Top Auto Stores	25	13,000	John Goodsell	14302 1st Ave., South, Seattle, WA 98168 (206) 246-4838
40.	Acme Auto Supply, Inc.	25	7,500	Melvin L. Fine	620 R Oakwood Ave., West Hartford, CT 06110 (203) 246-2540
41.	Murray's Discount Auto Stores	25	5,900	Irving E. Pitt	27707 Plymouth Rd., Detroit, MI 48239 (313) 937-8360
42.	Crazy Joe's	24	17,000	Joe Armentrout	704 Jackson Park Rd., Kannapolis, NC 28081 (704) 938-4631
43.	Fisher's Auto Parts	23	20,000	Jim Fisher	295 McCarty Dr., Houston, TX 77029 (713) 672-5678

AM's 100 LARGEST AFTERMARKET RETAILERS

Rank	Chain	Stores	$ Sales (+000)*	CEO	Address and Phone
44.	Big Wheel Auto Stores	23	13,000	R.B. Shaller	1335 Mendota Heights Rd. Mendota Heights, MN 55120 (612) 452-7484
45.	World Wide Auto Parts, Inc.	23	11,500	Russ Haehn	87 Brooklyn, Youngstown, OH 44507 (216) 782-2204
46.	Stinger Sam Auto Parts, Inc.	21	7,000	Ralph & Neil Stinger	P.O. Box 10677, Springfield, MO 65803 (417) 862-8107
47.	Gatling's Auto Stores	20	6,500	Albert C. Premus	117 W. Peach St., Connellsville, PA 15425 (412) 628-3340
48.	Royal Auto Supply	20	5,900	Jon Slenn	Twin Park Industrial Center, Colmar, PA 18915 (215) 822-1359
49.	Save Auto Stores	18	10,000	Don H. Hampton	7949 S. I35, Oklahoma City, OK 73143 (405) 634-1401
50.	Performance Centers of America	17	7,500	Donald R. Raleigh	180 Whitman Ave., Edison, NJ 08817 (201) 287-5200
51.	Auto Parts World	17	7,200	Anthony Dabrowski	1176 W 14 Mile Rd., Clawson, MI 48017 (312) 288-0660
52.	Al's Auto Supply	16	12,000	Ron Hollyoak	6308 Everett Greenway, Everett, WA 98203 (206) 353-1234
53.	B&C Auto Supply	16	12,000	Harold Dill	5491 Minnesota Dr., Anchorage, AK 99518 (907) 562-2047
54.	Grafton Corp	16	12,000	Paul C. Grafton	1006 Middle River Rd., Baltimore, MD 21220 (301) 574-1194
55.	Kissinger Discount Auto Stores	16	3,500	Vester M. Kissinger	3100 N. Main St., Fort Worth, TX 76106 (817) 625-4333
56.	Von Housens Auto Parts	15	7,500	George Grinzewitsch	2634 Juniper Lane, Sacramento, CA 95825 (916) 485-7552
57.	Butler Auto Supply (Parts Central)	14	7,000	Milton Butler	3243 Whitfield St., Macon, GA 31297 (912) 745-9295
58.	All-Parts Automotive, Inc.	14	6,500	James J. Meyer, Jr.	900 E. Tuscarawas, Canton, OH 44707 (216) 455-0881
59.	Toohey's Auto Supply Co.	14	6,500	G.W. Toohey	149 E. Woodlawn Ave., Louisville, KY 40214 (502) 368-3897
60.	Johnie's Discount Auto Supply	14	6,000	Johnie Marshall	627 Main St., Garland, TX 75040 (214) 272-0450
61.	Bennett Auto Supply	14	5,500	Allen Bennett	3869 N. Cixie Hwy, Oakland Park, FL 33334 (305) 565-4636
62.	Babcock Stores	14	5,200	Robert Hendrik	114 W. Woodward St., Denison, TX 75020 (214) 465-2536
63.	Kentucky Motor Service, Inc.	14	3,000	Anthony Neltner	235 Scott St., Covington, KY 41011 (606) 431-0309
64.	Scherbas Auto Stores, Inc.	13	16,000	Ted R. Scherba	3910 El Camino Rd., Burlingame, CA 94101 (415) 341-7478
65.	National Automotive Superstores	13	13,500	David H. Wallace	4317 N. Palafox, Pensacola, FL 32505 (904) 434-2371
66.	VIP Discount Auto	13	11,000	Thomas O. Auger	485 Sabattus St., Lewiston, ME 04240 (207) 784-5464
67.	Mechanics Warehouse, Inc.	13	8,000	Roger Zeete	5100 St. Clair Ave., Cleveland, OH 44103 (216) 431-1166
68.	Bradshaw Auto Parts Co.	13	7,500	Mark Marchant	479 West 91-60 South, Sandy, UT 84070 (801) 322-2546
69.	Short's Auto Stores, Inc.	13	7,500	Jay Coopersmith	22905 Chrysler Dr., Hazel Park, MI 48030 (313) 546-9700
70.	A&A Auto Stores, Inc. (Keystone)	13	4,500	Joseph Amato, Jr.	Route 11, State Hwy, Moosic, PA 18507 (717) 457-6786
71.	LDC Auto Stores	13	4,000	Herbert J. Katz	1400 Queen Anne Rd., Teaneck, NJ 07666 (201) 837-0777
72.	L&M Tire Co., Inc.	12	10,000	Ernest J. Jubela	1535-15 E. Valley Pkwy., Escondido, CA 92027 (619) 741-4044
73.	American Auto/Art's Auto Supply	12	10,000	Ken Millard	1011 Mason St., Omaha, NE 68108 (402) 345-1797
74.	Maynard Supply Co.	12	9,000	Lee Maynard	230 N. Winooski Ave., Burlington, VT 05401 (802) 862-6517
75.	Guy Henshall Supply Co., Inc.	12	4,500	Brian K. Franklin	901 S. Memorial, Tulsa, OK 74112 (918) 836-0057
76.	Professional Auto Parts Associates	12	4,200	Meyer Chernock	2230 Reistertown Rd., Baltimore, MD 21217 (301) 669-0800
77.	Auto Barn Stores	12	3,500	Herbert Blumberg	13 Haror Park Dr., Port Washington, NY 11050 (516) 484-9500
78.	Blomgaars	11	14,000	H.A. Bomgaars	333 Douglas St., Sioux City, IA 51102 (712) 277-2000
79.	Midwest Auto Sepcialties	11	8,500	David Loya	9090 Bank St., Cleveland, OH 44125 (216) 447-4470
80.	D.G. Nicholas	11	4,500	D.Y. Nicholas	601-615 Wyoming Ave., Scranton, PA 18501 (717) 342-7683
81.	Auto, Truck & Van Associates	10	14,000	Walter A. Lahmann, Jr.	150 Engineers Rd., Hauppauge, NY 11788 (516) 435-4555
82.	Knechts of Springfield, Inc.	10	8,500	Wallis N. Knecht	3400-02 Main St., Springfield, OR 97478 (503) 746-4446
83.	R.I. Mitchell Co.	10	6,000	Earl Isaacson	15 Lincoln St., Lewiston, ME 04240 (207) 784-6411
84.	Scogin Auto Service, Inc.	10	4,500	Joe W. Scogin	P.O. Box 618, Leesville, LA 71446 (318) 239-4553
85.	Kar Parts, Inc.	10	3,000	Stanley Rak	Hwy 206 S. & Sherman Ave., Raritan, NJ 08869 (201) 526-7011
86.	Wise Buy Discount Auto Supply	10	3,000	Frank Weiser	15280 E. Iliff Ave., Aurora, CO 80014 (303) 695-0570
87.	Mr. Auto Supply Inc.	10	3,000	Mike Jelvik	4155 S. Broadway, Englewood, CO 80110 (303) 761-6721
88.	Economy Imports	9	6,000	Peter J. Blacklock	980 George St., Santa Clara, CA 95090 (408) 988-2452
89.	Blue Star Auto Stores	9	5,000	Eugene Weisman	2001 State St., Chicago, IL 60616 (312) 225-7174
90.	Cash & Carry Auto Parts	9	5,000	Steve Burt	Hwy 78 & Barry St., Oxford, AL 36203 (205) 238-8277
91.	U-Save Auto Parts	8	12,500	Merv York	7640 Densmore Ave., Van Nuys, CA 91406 (818) 782-7340
92.	Walter H. Bryan, Inc	8	6,500	Walter H. Bryan, Jr.	Stewart Lane S.P.O. 6772, Jacksonville, FL 32205 (904) 389-6644
93.	Parkway Auto Parts	8	4,000	L. Williams	1174 Forest Pkwy., Lake City, GA 30260 (404) 363-1096
94.	PV Performance Centers	8	3,000	Brian Peavey	124 Eastern, Malden, MA 02148 (617) 321-7414
95.	Indy Auto Stores	8	1,000	Dennis Fitzgerald	8458 Sunland Blvd., Sun Valley, CA 91352 (818) 768-9017
96.	Seventh Avenue Auto Parts	8	1,000	Robin Conant	112 N. 7th Ave., Phoenix, AZ 85001 (602) 258-6731
97.	Inter-City Auto Stores, Inc.	7	1,600	Stanley Ginsberg	5975 NW 82nd Ave., Miami, FL 33166 (305) 592-9211
98.	Thrifty Auto Parts	6	3,500	Keith Thompson	17325 Sprague Ave., Greenacres, WA 99016 (509) 928-0770
99.	Katella Auto Parts, Inc.	6	2,500	John Lown	1877 W. Katella Ave., Anaheim, CA 92804 (714) 635-5541
100.	Wingate Automotive	6	2,500	I. Fred Anderson	1283 NW 31st Ave., Fort Lauderdale, FL 33311 (305) 584-4232

* Reported or estimated for 1986

AM's STATISTICAL SUPPLEMENT

Intelligent decisions must be based on hard data. Here are some data to help you make the best decisions possible.

by **Philip Katcher**, Research Editor

Information, often in the form of statistical data, is the foundation upon which intelligent business decisions must be built. In this issue *Automotive Marketing* highlights some important information.

Estimated retail sales for 1985 and 1986 give retailers some important information. From this data, we see that automotive retailers have had only slight sales growth over the course of 1986, as compared to 1985. It was lower than service station sales growth, but better than the loss felt by department stores.

Furthermore, the data shows that, while department stores, as expected, have dramatically better sales figures in December (for Christmas), automotive retailers do best in early Fall. July and Oc-

ESTIMATED MONTHLY RETAIL SALES, 1986 (in millions of dollars)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total	% of Change
Home & Auto Supply Stores	1,759	1,606	1,853	2,070	2,130	2,109	2,292	2,106	2,105	2,193	2,045	1,984	24,205	+ 0.7%–
Dept. Stores	7,954	8,049	10,769	10,644	11,985	10,971	10,519	12,037	10,866	11,810	14,222	22,071	141,897	- 5.3%
Serv. Stations	8,067	7,122	7,173	6,941	7,442	7,451	7,390	7,410	6,873	7,022	6,675	6,923	89,189	+ 16.9%

ESTIMATED MONTHLY RETAIL SALES, 1985 (in millions of dollars)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total	% of Change
Home & Auto Supply Stores	1,695	1,541	1,910	2,104	2,165	2,143	2,208	2,174	2,025	2,196	2,165	2,039	24,365	–
Dept. Stores	7,629	7,769	9,984	10,408	11,171	10,447	9,717	11,436	10,154	11,216	13,910	20,903	134,744	–
Serv. Stations	7,836	7,063	7,947	8,348	8,794	8,774	9,070	9,005	8,380	8,647	8,285	8,618	100,767	–

Source: Bureau of the Census

PRIME DIYERS' CARS

DIYers do the most work on cars that are around seven years old instead of newer or older. Stocking, therefore, to meet their demands requires knowing what sort of cars sold best seven years ago. Below, we list the 1981 car models and the numbers of each specific model sold that year. The scrappage rate of these cars between 1981 and 1985 was 5.8%.

Cars	Number sold
AMC	
Spirit (Gremlin/AMX)	33,504
Concord (Hornet)	59,846
Pacer	111
Eagle	43,221
Chrysler	
TC3	51,815
Horizon 4-door	75,377
Reliant	190,158
Volare	6,839
Gran Fury	9,312
LeBaron	46,991
Cordoba	23,904
Chrysler	15,071
Imperial	4,649
O24	51,071
Omni 4-door	56,038
Aires	143,619
Aspen	6,034
Dodge 400	3,150
Diplomat	25,598
Miranda (Magnum)	13,947
St. Regis	5,628
Colt	42,796
Champ	42,128
Sapporo	13,326
Challenger	12,690
Ford	
Thunderbird	69,775
Granada	106,996
Fairmont	182,909
Pinto	10,037
Escort	284,907
EXP	54,502
Mustang	154,985
Mercury	53,145
Cougar XR7	28,706
Zephyr	50,603
Bobcat	2,169
Lynx	92,809
LN7	18,217
Capri	47,151
Lincoln	29,178
Continental	4,919
General Motors	
Chevrolet	210,424
Corvette	29,039
Monte Carlo	161,158
Celebrity	212,491
Camaro	94,606
Citation	300,184
Cavalier	88,072
Chevette	346,307
Pontiac	82,620
Grand Prix	128,236
Bonneville LeMans, A6000	75,313
Firebird	52,188
Phoenix	82,285
J-2000	75,884
T-1000	55,868
Oldsmobile	243,245
Toronado	38,609
Cutlass/Ciera	456,904
Omega	109,981
Buick	139,497
Riviera	47,964
Century/Regal	334,696
Skylark	200,460
Cadillac	138,948
Eldorado	54,389
Seville	22,724
Cimarron	14,604
Checker	2,904
Volkswagen	
Rabbit (US-made)	162,005
Rabbit (GFR-made)	12,081
Jetta	27,972
Scirocca	17,042
Dasher	13,660
Vanagon	10,882
Quantum	515
Beetle Convertible	33
Toyota	
Corolla	241,639
Corolla Tercel	121,328
Celica	103,879
Starlet	32,825
Cressida	29,583
Corona	22,337
Celica Supra	16,146
Land Cruiser	2,027
Hawaii	6,727
Nissan (Datsun)	
210	160,077
310	77,956
200 SX	76,024
280 ZX	63,791
Stanza (510)	46,432
Maxima (810)	35,495
Hawaii	5,031
Honda	
Accord	172,557
Civic	154,698
Prelude	43,450
Audi	
4000	18,647
5000	17,611
5000 Diesel	6,139
5000 Turbo	5,576
Coupe	2,553
4000 Diesel	297
JRT Inc.	
Triumph	9,759
Jaguar	4,688
MG	3,700
Rover	774
Peugeot	
505 Turbodiesel	9,375
505 (504) Diesel	4,641
505 (504) Gasoline	2,124
604 Turbodiesel	335
604SL	250
Porsche	
911S	4,016
924	3,251
928	2,019
924 Turbo	1,938
930 Turbo	17

Sources: Domestic car data, Motor Vehicle Manufacturers Association. Imported car date, copyright 1982, Ward's Communications, Inc. Reprinted with permission.

AM's STATISTICAL SUPPLEMENT

tober are the best sales months for these retailers, but even they are only nominally better than many other months such as May and August. It is no surprise to find that service stations do better in August as families pile into their cars and head out across America on their vacations.

What may be a surprise is that these drivers may be hailing in ever increasing numbers from states that are not seen as growth states. For example, consider New England. In terms of population, the area didn't grow over the past decade as fast as the "Sunbelt." In terms of car population, however, many of its states grew faster than many of these then very popular warm-weather states. Comparing passenger car registrations from 1975 to 1985, we find that New Hampshire and Vermont had a growth rate ahead of the nation's, while Georgia, South Carolina, and North Carolina lagged behind the national growth rate.

And, lots of people are driving light trucks. In fact, the top states for light truck ownership are, in order, Texas, California, Florida, Ohio, Michigan, and Georgia – not states clumped together in one part of the country. The message is that there is no one area that's specifically "light truck country."

The cars that concern aftermarket retailers the most, however, are the prime core DIYer cars. For 1987 these are the cars that were purchased in 1980. These are the cars that studies have repeatedly found are being worked on the most by DIYers as their value has dropped to the point where their owners don't bother (or can't afford) to take them to professional servicemen. As well, these were, for the most part, fairly simple cars, mechanically speaking, that the shade-tree mechanic can still work on without a degree from the Massachusetts Institute of Technology. These are, then, the cars that parts should be stocked for.

Armed with this basic data, then, the retailer should be able to determine when his best selling season should be, how his state-wide trading area stacks up both in terms of number and growth of vehicles, and what car models he should be stocking parts for. ■

SALES OF SELECTED RETAIL PRODUCTS

Item	Unit	1985
Batteries, Replacement	Batteries	58,684,000
Antifreeze/ Coolant	Gallons, separate	143,912,537
Cleaners, Brake	Containers	15,294,550
Cleaners, Carb & Choke	Containers	31,720,158
Cleaners, Exterior	Containers	25,004,267
Degreacers, Engine	Containers	20,778,725
De-Icers, Windshield, Lock	Containers	11,315,669
Lubricants & Silicones	Containers	64,668,372
Motor Oil	Gallons	1,364,164,000
Refrigerants	Containers	72,216,750
Tire Inflators & Sealants	Containers	23,623,196

Sources: American Petroleum Institute, Chemical Specialties Manufacturers Association, General Battery Corp.

MOTOR VEHICLE REGISTRATION BY STATE OR DISTRICT

State	% Growth Of Cars 1975 to 1985	Passenger Cars 1975	Passenger Cars 1980	Passenger Cars 1985	Light Trucks 1985
Alabama	21	1,876,000	2,105,546	2,274,000	861,217
Alaska	75	135,000	156,000	236,000	115,048
Arizona	35	1,109,000	1,372,742	1,500,000	606,937
Arkansas	13	875,000	1,036,456	991,000	416,809
California	25	11,392,000	13,268,456	14,274,000	3,130,985
Colorado	45	1,429,000	1,739,718	2,078,000	632,956
Connecticut	21	1,870,000	1,984,064	2,263,000	115,642
Delaware	31	289,000	321,644	379,000	77,865
District of Columbia	(14)	249,000	247,137	214,000	8,771
Florida	62	4,855,000	6,196,637	7,886,000	1,636,576
Georgia	14	2,609,000	2,932,464	2,979,000	1,058,413
Hawaii	35	428,000	514,509	578,000	68,412
Idaho	34	419,000	513,256	562,000	260,374
Illinois	15	5,406,000	6,240,460	6,211,000	1,304,137
Indiana	17	2,572,000	2,872,006	3,014,000	772,382
Iowa	14	1,528,000	1,678,976	1,743,000	551,900
Kansas	16	1,271,000	1,387,847	1,476,000	533,080
Kentucky	7	1,653,000	1,807,358	1,769,000	700,231
Louisiana	27	1,635,000	1,968,041	2,074,000	845,289
Maine	16	520,000	518,079	604,000	178,983
Maryland	35	2,180,000	2,345,047	2,769,000	462,265
Massachusetts	20	2,787,000	3,289,836	3,332,000	378,004
Michigan	14	4,619,000	5,246,057	5,279,000	1,069,897
Minnesota	16	1,967,000	2,314,444	2,274,000	560,838
Mississippi	7	983,000	1,219,147	1,047,000	337,969
Missouri	21	2,180,000	2,432,407	2,626,000	795,912
Montana	7	370,000	419,700	396,000	203,386
Nebraska	1	826,000	835,644	833,000	308,103
Nevada	55	348,000	471,593	540,000	174,610
New Hampshire	85	418,000	471,593	773,000	130,815
New Jersey	15	3,839,000	4,256,753	4,412,000	341,767
New Mexico	38	552,000	686,626	760,000	381,854
New York	15	6,772,000	6,994,316	7,774,000	917,218
North Carolina	12	2,844,000	3,395,784	3,190,000	976,695
North Dakota	31	332,000	364,909	434,000	186,350
Ohio	7	6,206,000	6,415,046	6,621,000	1,095,269
Oklahoma	22	1,425,000	1,807,643	1,744,000	836,479
Oregon	20	1,331,000	1,538,556	1,599,00	515,500
Pennsylvania	(7)	6,354,000	5,821,025	5,867,000	996,799
Rhode Island	9	510,000	542,462	554,000	74,105
South Carolina	19	1,384,000	1,533,081	1,644,000	465,439
South Dakota	22	337,000	369,549	411,000	203,827
Tennessee	41	2,029,000	2,564,551	2,864,000	693,870
Texas	41	6,165,000	7,484,817	8,681,000	3,337,245
Utah	26	608,000	678,027	759,000	314,270
Vermont	25	235,000	270,287	293,000	82,029
Virginia	28	2,785,000	3,071,878	3,571,000	600,474
Washington	34	1,883,000	2,293,521	2,517,000	882,882
West Virginia	42	720,000	928,962	1,022,000	297,449
Wisconsin	8	2,194,000	2,399,134	2,382,000	585,769
Wyoming	51	193,000	277,906	291,000	162,454
Total	[illegible]	107,371,000	[illegible]	130,364,000	[illegible]

Sources: Motor Vehicle Manufacturers Association, U.S. Department of Transportation's Table MV-9

MANAGEMENT '87 SERIES

PLAN FOR INFORMATION SYSTEMS

Business information is too important to be left to chance. It may be time for you to develop an information management system of your own.

by **Randy Allen**, Touche Ross

Retail automotive aftermarket businesses run on bits and pieces of information. Such information includes prices, product turns, SKUs, sales, orders, and other bits of business data. Today, automotive retailers have only to pick up a business magazine to read about how companies use management information systems (MIS)—systems that put all those bits of information in a meaningful fashion—to gain competitive advantages.

You might wonder then, are there information systems you should be developing for your aftermarket business?

There probably are. Such information systems and their uses include:

- Generic systems that run the day-to-day business, such as payroll and general ledger.
- Systems used to enhance productivity, such as computer generated labor scheduling.
- Systems used to gain a competitive edge, such as a data base of competitors or zone pricing.
- And systems which are considered defensive in nature—like those which stores use to improve customer service levels, (automated electronic ordering system tied to suppliers) for instance.

But before working on top-of-the-line, competitive systems, first be sure all the generic systems that run your business day-in and day-out are in place and running smoothly.

Frankly, true examples of major competitive systems are few and far between. But almost every successful retailer has good quality systems for daily operations. And having those systems requires corporate information planning.

MIS BUDGETS: PERCENT OF SALES BY RETAILER TYPE

As a group, the respondents to a recent study on computer use in retailing operations spend slightly over 1% of their sales on management information systems (MIS). The actual range can be quite broad, however, with firms reporting spending as little as 0.1% and as much as over 2%. Retail automotive aftermarket stores fall into the specialty hardgoods category in this study.

Type Of Retailer	MIS Budget As % Of Sales
Total	1.07%
Specialty Hardgoods	0.77%
Discount/Mass Merchandiser	0.99%
Department	0.96%
Variety	1.46%
Specialty Softgoods	1.16%
Other	0.06%

Source: Touche Ross

Why Plan For Information?

Information planning is a process that identifies system needs, priorities, and ways to reach them. It is a major expenditure justified by your company's need to support your business plans.

You might ask why you should plan for information systems. Just consider for a moment the capital, time, and people you invest in your information systems. Your information systems should be planned just as any major expenditure is, and should be closely linked and planned in tandem with business plans.

For automotive retailers, planning is even more critical than for some other retailers. In the past few years, the aftermarket has become much more competitive, and typical merchandise planning is done on a six-month time period. Most major information systems usually take at least a year to implement, even when using a package, so planning is critical. In addition, without careful planning in the systems area, resources can be pushed and pulled continually, addressing short-term problems and never getting to the major systems needed to run the business and remain competitive.

MIS BUDGETS: PERCENT OF SALES BY SALES VOLUME

As retail firms grow in sales, they do gain some economies of scale in management information systems (MIS).

Sales In Millions	MIS Budget As % Of Sales
Total	1.07%
$1-$50	1.20%
$51-$150	1.13%
$151-$250	1.13%
$251-$350	0.06%
Over $351	1.05%

Source: Touche Ross

Developing The Plan

There are four major phases in developing an information systems strategy and plan:

- Assessment: review current information systems status.
- Strategy development: determine information systems strategic direction.
- Plan development: conceive the information systems master plan.
- Execution: implement and control the information systems plan.

First, there are some basics to consider starting with the *planning team*. The team should be led by the senior MIS or data processing executive, if your company has one. The team members, one from each functional area of the business, should report to the senior executives of the company, to ensure clear direction and priorities on the business plans, resolution on key policy and business decisions, and commitment of the resources necessary to developing the plan. The team should get management approval before implementing the final plan to prevent hassles and delays.

Another consideration is that information planning is not a cookbook, step-by-step activity but rather a *process* which needs to be modified to meet the company's unique needs and environment. The team must seek and be receptive to the needs of all information users and provide enough flexibility in the plan to adapt to these needs.

Timing is another important consideration. Try to complete the plan in a relatively short time so that planning does not become an end in itself. A typical automotive retailer can develop a high quality long-range information systems plan in about two to four months. The plan should cover three to five years.

The *level of detail* at the planning stage is still another consideration. The first step in the execution of the plan for a particular application is a detailed feasibility study and an outline of the system requirements. The plan therefore needs to describe applications in broad terms with broad statements of business needs.

Assessment

The planning process begins with as-

Randy Allen is a partner in the Newark, NJ office of Touche Ross. She invites comments on this article and can be reached at (201) 622-7100.

MIS BUDGETS: EXPENSES AS A PERCENT OF SALES BY RETAILER TYPE

As would be expected, personnel accounts for the largest management information system (MIS) expenditure as a percent of sales, ranging from 36% among variety stores to 56% among softgoods specialty stores. There is also a range of budget figures for POS equipment, mainframes, software, voice communications, and maintenance. This chart only looks at the figures for specialty hardgoods retailers. Retail automotive aftermarket stores fall into the specialty hardgoods category in this study.

Category Of Expense	MIS Budget As % Of Sales
Personnel	44.3%
POS Equipment	2.0%
Microcomputers	1.13%
Data Communications	3.0%
Utilities	0.8%
Mainframes	19.7%
Application Software	0.8%
Operating Systems Software	3.0%
Database Software	0.6%
Non-POS Store Equimpent	2.7%
Space Costs	0.6%
Voice Communications	2.4%
Maintenance	7.7%

Percentages do not total to 100% due to partial responses

Source: Touche Ross

sessment of the current information available, the company's business plans, and the systems needed to support those plans. In this phase, the project team answers the following questions:

- Where are we?
- Where do we want to go?
- What are the business, technology, and resource issues?

To answer these questions, the team must understand the business's needs and directions, the current status of MIS within the company, what is happening with other automotive retailers in the technology area, and where technology is headed. This information enables the team to understand the opportunities which technology can provide to run the business more effectively.

This assessment phase is very important because the team must have a clear picture of where the company is before it can develop a road map for where it wants to go. Part of the assessment involves determining user needs and satisfactions, as well as the MIS capabilities needed to support increased demands and new business plans.

Strategy Development

This phase sets the direction and strategy for MIS. During this phase the team answers the following questions:

- What are the options?
- What are the cost/benefits trade-offs?
- What is the "best" direction to take?

In answering these questions and developing the strategy, the team keeps in mind the business goals and objectives, as well as the risks and impacts associated with each one. The team must develop broad alternatives in terms of applications, data management, and the supporting technical and organizational architecture needed to collect all the necessary data and provide flexibility to report on it in many different ways.

During this phase, the project team looks at justification for the various applications. The justification can take many forms. For generic systems, there may be limited cost/benefit analysis. For systems that enhance productivity, there may be a more traditional and detailed cost/benefit analysis. For competitive systems, the justification is more often a description of the business benefits. For defensive systems, the justification usually takes the form of a description of the business benefit.

Information Systems Master Plan

The strategy developed during the prior phases is now ready to be turned into an implementation or master plan. The master plan should include timeframes, resources, responsibilities, and budgets. During this phase the team answers the following questions:

- What are the company's priorities?
- What resources are required?
- When will the plan be implemented?

In developing the master plan, the team must be practical and consider, for example, the organization capabilities of both MIS and users, the resources, constraints, the financial implications, measurement of success responsibilities, and the risks. The master plan should specify the sequence of activities and assign responsibilities.

Plan Implementation And Control

This phase is the last and, in many ways, the most important in business information planning. During this phase the team begins to execute the plan. It is crucial to recognize that the plan is *dynamic*, not static. It is subject to change. Mechanisms must be in place to monitor the progress against the plan and to recognize when the plan needs to be changed because of business needs, competition, or technology change.

Questions answered in this phase are:

- How do we manage and control the plan?
- When do we update it?

The project team needs to employ a management and control process appropriate for the company, the project's risks, and contingency positions. A steering committee is a very good vehicle for managing the plan on an ongoing basis, with an annual review as a part of the business planning process. The plan should identify major milestones, develop a control reporting approach, and establish responsibilities for managing, monitoring, controlling and updating. ■

MIS BUDGETS: EXPENSES AS A PERCENT OF SALES BY SALES VOLUME

The amount budgeted for management information system (MIS) personnel, as a percent of sales, declines with the increase in total sales. Among the smallest retailers, 56% of the MIS budget is dedicated to personnel. The largest retailers dedicate about 42% for personnel. There is no such pattern seen in most of the other categories. However a number of larger retailers are making major investments in voice communications.

	Sales In Millions				
Category Of Expense	$1-$50	$51-$150	$151-$250	$251-$350	$351-Up
Personnel	55.3%	50.1%	46.3%	45.5%	41.9%
POS Equipment	6.1%	5.4%	9.7	6.8%	7.7%
Microcomputers	3.9%	1.2%	1.4%	3.0%	0.4%
Data Communications	3.4%	5.4%	3.6%	2.8%	5.0%
Utilities	1.8%	0.6%	0.1%	1.6%	0.3%
Mainframes	15.0%	10.0%	23.0%	21.9%	17.5%
Application Software	1.9%	2.7%	1.5%	0.8%	0.9%
Operating Software	1.4%	6.6%	5.9%	1.6%	3.4%
Database Software	0.6%	0.5%	0.5%	0.3%	0.5%
Non-POS Store Equipment	0.5%	0.3%	0.2%	0.5%	2.3%
Space Costs	3.5%	0.2%	1.7%	NA	0.5%
Voice Communications	0.1%	0.3%	4.9%	9.2%	9.9%
Maintenance	14.5%	7.8%	6.2%	6.3%	4.4%

Percentages do not total to 100% due to partial responses.

Source: Touche Ross

COMPUTER UPDATE: HARDWARE

Three years ago we said that retailers would have to computerize for basic tasks. Now new hardware is moving them in new directions.

by **Philip Katcher**, Research Editor

Three years ago (*Automotive Marketing*, January 1984) we said that retailers would have to computerize in order to survive into the 21st Century. We added that these computers would be required for basic inventory control, personnel scheduling, parts look-up, accurate ring-ups, payroll, billing, and other functions.

Today, among aftermarket retailers we surveyed this year, 70% have computerized their businesses to some extent. And, they are happy they have computerized. Steve Levine, Midway Auto Stores, Dallas, TX, for example, says that his company installed a well-known jobber system three years ago. "We have been able to double turns on merchandise and get a handle on theft problems," as a result of that installation, he reports.

Since 1984, hardware (terminals, keyboards, processing units, and the like) manufacturers both have added more and more possibilities for computer uses. The result has been a plethora of new possibilities—and new confusions—for computers and their owners.

Therefore, a wise computer user needs to know about the latest potential uses for a system, so that the system that is finally installed can meet all its future demands. For that reason, *Automotive Marketing* now looks at a few of the latest trends and hardware offerings in the computer field of use to aftermarket retailers.

Specialized Systems

One major trend is towards ever more specialized computer offerings for specific tasks. By now there's a specialized computer system available for just about every type of aftermarket business.

The best known in the industry are the plethora of systems designed for jobber/retailers. There are a number of well-known names in this field, including Armor Systems, (Maitland, FL), Autologue Computer Systems (Fullerton, CA), Counter Systems Corp. (Flushing, NY), Datatron Systems Corp. (Des Moines, IA), Distribution Management Systems (Rocky Mount, NC), Icas Computer Systems (Sparta, NJ), Kirk-Van Orsdel Computer Services (Des Moines, IA), MacDonald Computer Systems (Burbank, CA), Parts Data (Andalusia, AL), Rexon Business Machines (Culver City, CA), Triad Systems (Sunnyvale, CA), and The Ultimate Corp. (East Hanover, NJ).

With so many systems offered, it is no surprise that not one is universal. In all, 17 different hardware brands were mentioned as in use by retailers across the country. However, 37% of the jobbers with significant amounts of retail sales we surveyed indicated that they had installed Triad systems, while 13% use IBM equipment. Interestingly, when the Automotive Parts & Accessories Association (APAA) did a survey of retail computer users in 1982, only 22% used Triad systems, while 30% used IBM systems.

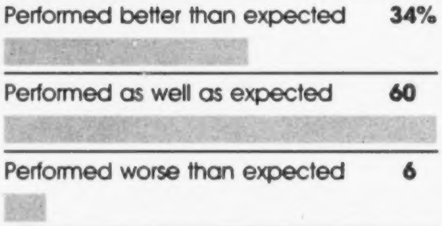
But, jobbers aren't the only ones who can get specialized computer systems.

Tire dealers have long had specialized computerized systems. Service station owners can take advantage of systems that write work orders and invoices, keep track of inventory, produce management reports, and maintain customer records. Repair shops can use a system that provides inventory control, customer master records, scheduling, and management reports. There are a number of systems just for collision repair shops that include producing damage reports, repair orders, follow-up letters, job costing, and worker productivity in addition to the standard general ledger, accounts receivable and payable, and sales analysis.

As of this moment, however, there is no one specialized package offered to the volume aftermarket retail chain. His packages have to be assembled from generally available hardware and software. This, however, may be an advantage since the retailer is not confined within a too-specific system. James Willey, Waverly Motor Supply, Waverly, IA, for example, installed a computer system three years ago. "The units have worked well," he says. But, he adds, "We find we would like to go to even more sophisticated equipment."

HOW COMPUTERS PERFORM FOR AFTERMARKET RETAILERS

We asked retailers who had computerized how they found their systems worked for them after their installation. A significant number discovered more benefits to computerization than they had expected.



Source: *Automotive Marketing* Retail Panel

Point-of-Sale

Over the past few years *Automotive Marketing's* "Management" series has been stressing the increasing value of Point-of-Sale (POS) systems for retailers. In January 1987, Touche Ross produced a huge study, done in conjunction with the National Retail Merchants Association, on *Point Of Sale: Current Trends And Beyond*. What they found was that there has been a change of attitude since 1981, when most retailers found it difficult to justify the costs of POS. Today, most feel it pays for itself—and most large retailers use some form or another of POS and an in-house computer.

Aftermarket retailers are keeping up with the other large retailers in terms of installing POS systems. In the latest *Automotive Marketing* survey, 48% of them reported that they used a POS system in their stores. Most capture SKU data; do accounts payable and general ledger during financial cycles (but not heavily for payroll); and do staple stock, purchase order management, and merchandise receipt during purchase cycles with their POS systems.

In addition, POS is being put to uses not considered when the systems were invented. For example, several leading chains are using their systems to cut down on internal theft from employees who use other employees' numbers to steal, or who abuse an employee discount privilege, or who key in false returns and voids. IBM, in fact, even offers a program, "SPOT" just for this purpose.

Generally, Touche Ross found that POS installers in 1986 realized more of

COMPUTER UPDATE: HARDWARE

the benefits they expected than did those in 1977 or 1981. For example, over 72% of their respondents who expected POS to lead to improved gross margin achieved their goals, while under 20% in their 1977 survey realized that benefit.

As POS has grown, its users see a number of changing management aspects because of it. Most told Touche Ross that there will be more technology employed at the store level and that Management Information Systems (MIS) groups will become increasingly important in creating future business strategy.

Touche Ross found that the rate at which retailers using POS can convert to new equipment is accelerating. The period of implementation is shorter today than it was five years ago, and the number of stores converted annually is greater. Interestingly, smaller retailers are more aggressive about replacing old equipment than are larger ones—possibly being able easier and more cheaply to change quickly to meet changing needs. Most retailers begin replacing their POS equipment within the next three years, while almost 45% of POS equipment in North America is over five years old.

Bar Coded Check-Outs

In March 1983, *Automotive Marketing* investigated the use of bar codes for aftermarket retailers. At that time, we pointed out many of the favorable aspects of bar codes—instant accountability, product movement tracing, automatic price lookup, rapid inventory control. "So why aren't the automotive chain stores standing in line waiting to make the transition from standard cash register to the latest scanning equipment?" we asked. Our answer was simple: "The motivating force for UPC (Universal Product Code) scanning was the pressing need for speed and efficiency at the check-out counter. However, we feel the automotive chains will need some other decisive factor to convince them that scanning is a worthwhile investment."

The picture may be changing by now.

According to Satish Sharma, director of information services at Fel Pro, Inc. (Skokie, IL), "In the automotive aftermarket the real benefits from bar codes will be realized in the warehousing and distribution centers." He says such benefits include more accurate checking of incoming and outgoing items, changing inventories, speeding up cycle counting operations, and routing and monitoring shipments. However, retailers are also beginning to see benefits at the front end level.

A Chief Auto Parts clerk runs an item across a bar code scanner produced by Metrologic. Bar code scanning is new in the aftermarket and its potential rewards are being carefully considered.

In 1986 Pep Boys and Chief Auto Parts, two of the giants in the aftermarket, decided to incorporate UPC scanning in their stores. Bernie Greenberg, president of Stores Automated Systems, Inc. (SASI), Bensalem, PA, explained that Pep Boys found their own "decisive factor" needed to prompt a conversion to a scanner system. "Pep Boys has a much higher customer transaction count than the typical auto parts chain store," he said. "The average Pep Boys store averages an annual volume of $2.7 million, compared to the industry average of around $1.2 to $1.3 million per store."

Chief's management found other factors to make scanning a viable possibility. According to Tom Metcalf, Chief's systems manager, "Our company has long been excited about the cost saving opportunities that bar code scanning represents and, after actual testing, we have seen them firsthand. Previously, our system was entirely manual. We had to price label each product on the shelves by hand, and at the checkout, we had to manually key all price data into the cash register. Scanning is simply the best means available to read and automatically collect pricing and product data accurately and reliability."

Chief worked with SASI to select equipment and develop software. Each in-store system consists of two cash registers with their own counter-mounted bar code scanner produced by Metrologic, Bellmawr, NJ, a central processing unit (CPU) in the back office, a CRT terminal, a modem, and a report printer. When the products are scanned, the scanner collects the bar-coded data and feeds it to the register. This sends it to the back office CPU which transfers it through the modem to the headquarters mainframe. At the same time, headquarters sends price changes back to the store CPUs.

The whole system "dramatically" increases the speed and scope of operational and financial data collection chainwide and makes efficient and consistent updating of product prices easy.

Chief won't have the new system installed chain-wide until the end of 1987. So, it won't be immediately known of how much value the new system will prove to be for volume aftermarket retailing chains. But, the industry will be watching it with interest.

On-Floor Selling

Right now, a Touche Ross study indicates that only 21% of the largest of all retailers are even thinking of letting customers enter their own transactions at a computer. Looking far down the road, it may be that computer systems will be used more and more for these functions, replacing a number of hard-to-hire floor sales personnel.

Already, some direct marketing retailers are testing free-standing electronic kiosks at which shoppers choose their purchases from items displayed on a screen, and then charge them to their credit cards. These orders are then gathered, usually by an attached modem, by the central warehouse for fulfillment. The HarrisCatalogLibrary Mail Order Catalog Centers which are being installed in libraries in California are examples of these kiosks.

These systems range between being fairly simple to quite elaborate. Some systems, largely in use in large discounters and supermarkets, are simply store directories to product locations. Customers can see the products they want in different colors they choose—this system is already in use by a number of new car dealers, as well as by Sears Roebuck in allowing customers to choose window drapery frabics. Some systems even switch on automatically when their ultrasound systems detect an approaching individual.

The systems also can capture information about a customer; things like the type of car he's buying for and the type of credit card he uses. As well, the modems in open models can be used to update them from central sources.

To an extent, this is "blue sky" material: there are no systems of this sort specifically designed for automotive uses yet. Some computerized displays that provide DIY information have been produced; Champion Auto Stores introduced such a system in its stores in 1985. These do not yet, however, take customers' orders. Judging from the speed at which things have been happening in the computer field, however, it may not be long until these systems do start appearing in aftermarket retailers' stores.

In fact, it will not be long until automotive retailers are offered a whole new generation of hardware and software that will vastly enlarge their power to compete effectively. It will be almost a full-time job keeping track of them. ■

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The Marketing/Business Magazine For The Retail Aftermarket

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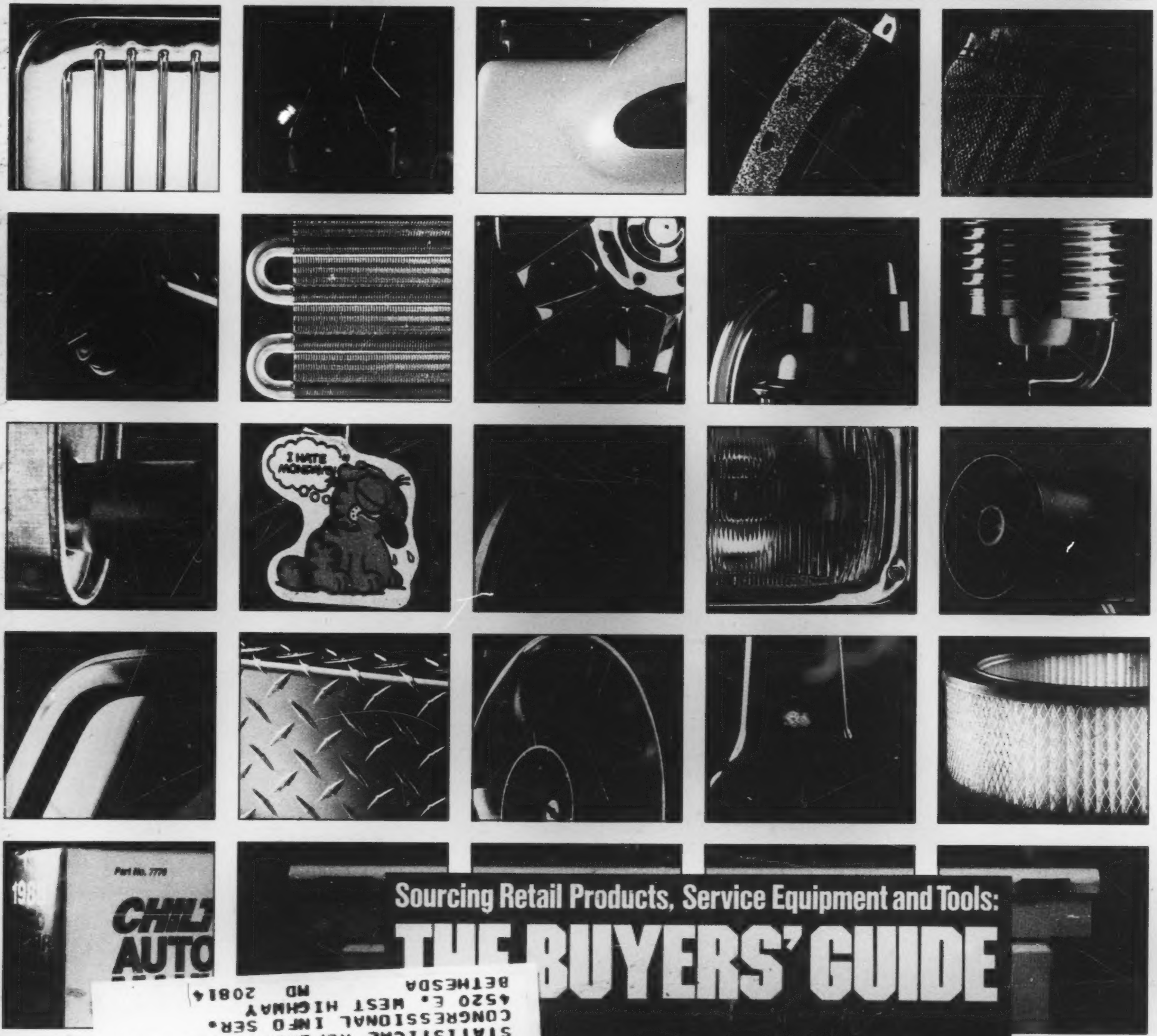
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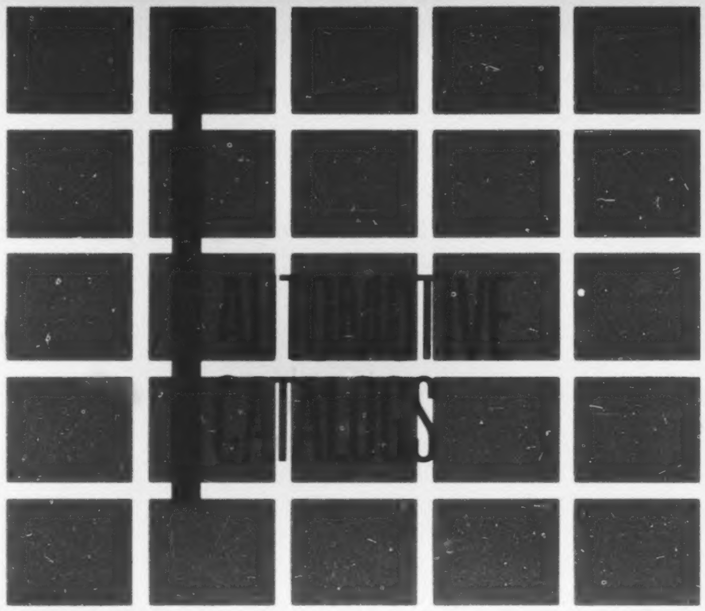

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PUBLISHER'S NOTES

PAPER AVALANCHES

Besides snow and ice, today's avalanches are also made of paper. . . the catalogs which spill from our home mailboxes into our arms, and from our office mail bags into our "IN" boxes! Our Chilton research department tells us that about ten billion catalogs were distributed in 1985. The experts predict even more in the future. What's more, catalogs are now merchandise themselves, as well as shopping tools. The catalog makers, seeking ways to gain additional distribution, recoup printing costs, and add other profit centers, are stocking them on store shelves. . . for sale.

We're in the catalog business, too. This annual Buyers' Guide issue sorts through the mail for you. We've printed "catalogs" very pertinent to automotive parts retailing.

Turn next to our very, very comprehensive list of products and suppliers. A new-this-year index makes finding particular products, whether parts or tools and equipment, easier.

Don't forget to check out *Detailing The Market!*

PLease tell us how we at *Automotive Marketing* do in our efforts to provide you with the data and information you need to stay in the retail aftermarket business at a profit. *That's* the ultimate object of the game! ■

Sarah Frankson,
Publisher

DETAILING THE MARKET

IN-STORE FOCUS

ROYAL AUTO SUPPLY
Headquarters: 300 Enterprise Ln., Twin Park Ind. Center, Colmar, PA 18918
(215) 822-1359
Stores: 19
Total Corp. Sales: $5,950,000 (est.)
Average SKUs: 10-12,000
Founded: 1937
Region Covered: Greater Philadelphia, Lehigh Valley and Central Pennsylvania

Royal Auto president Jon Slenn prides himself on maintaining a work force with a lower-than-average turnover. That's no mean feat in the retailing world, but it's a vital part of Slenn's overall recipe for success.

In Slenn's view, running a top-notch chain includes not only expansion and savvy advertising, but "getting the best available help."

The first part of his employment. formula involves "shopping around" for the best available employees. Slenn believes in taking his time when hiring, and this type of care has paid off handsomely: "The good employees never seem to leave," he says. Many of his employees, in fact, have been with Royal for 20-30 years.

How has Slenn managed to keep such a dedicated work force in a field notorious for turnover? "If I knew, I wouldn't tell you," he jokes. "But we do take good care of our people. We honestly care about them. We treat them as nicely as we can; we're not demanding in a harsh sense. I get very upset about my employees (if they have a problem)."

The chain of command at Royal follows a traditional pattern. Employees answer to their individual store managers, who in turn report to one of two district managers. The district managers report to Slenn himself. But, insists Slenn, "I'll talk to anybody. My office is always open, the phone is always available." And he means it.

One rule Slenn says he insists on is that "We will absolutely not promote from without the company." That promotes employee good will, as does the annual company dinner dance and a good benefits package, the contents of which Slenn will not reveal. Employees are kept abreast of company activities via a monthly newsletter, and receive no formal training. They learn on the job, a system which Slenn finds very workable.

At press time, the Royal Auto chain had 19 stores, with "leases signed" on three more sites, according to Slenn. That growth is part of the chain's plan for the 1980s—a plan that has taken the retailer from five to 19 locations in this decade.

In addition to Slenn's expansion plans and updated advertising program, part of the credit for this success must go to his employee "family." A well-known anecdote about Royal Auto has been told repeatedly in the industry: One weekend, Slenn moved a store into a different location; in his words, he actually "swapped stores" to gain more space. Thanks to diligent and enthusiastic employees, the move was accomplished in 23 hours, and only one day of business was lost.

That kind of employee attitude and support adds another meaning to Royal's ad campaign which centers around a character who sings a jingle that says, "We're sensitive at Royal Auto." When the slogan debuted, its target audience was 18-49-year-old males in about a 75%-25% ratio.

The little "We're sensitive" character also appears in every Royal print ad—all part of an image-building campaign for a successful chain on the move.

DETAIL

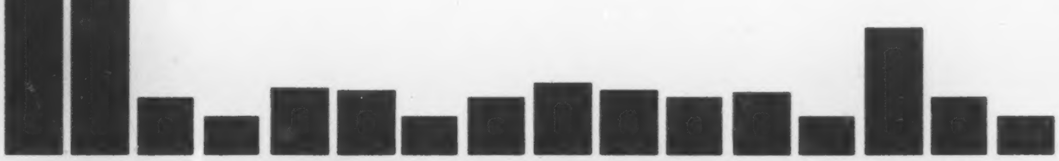
50%

of all the new passenger cars registered in the U.S. in 1990 will be imported, predicts William F. Prebe, vice president-economist, Dana Corp.

PROFILE: CHEVROLET OWNERS/DIYers

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study,* we look at DIYers who own Chevrolets, the most popular American-made car among DIYers.

			Age					Income				Hours Per Month Spent On DIY			
Total	Male	Female	-25	25-34	35-44	45-54	55 +	-$20K	$20-30K	$30-40K	+40K	-1 Hrs	1-5 Hrs	6-10 Hrs	11 + Hrs
100.0%	77.9%	22.1%	14.4%	28.3%	27.3%	12.7%	17.3%	29.5%	26.6%	18.2%	25.7%	16.4%	52.5%	18.2%	13.2%



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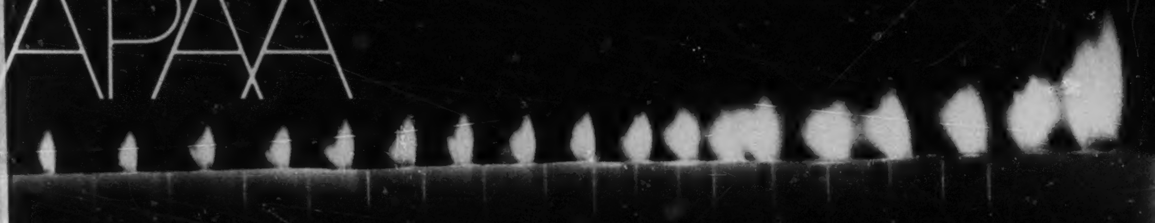

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PUBLISHER'S NOTES

BIRTHDAY GREETINGS!

There's no question about it: the industry event of this month, in fact of this summer, is the Automotive Parts & Accessories Show in Chicago, complete with APAA's 20th birthday party.

Over the past two decades the APAA has grown along with its members in its sophistication of service to the retail aftermarket communities. We congratulate the Association, and are proud to be active participants in its many areas of interest.

Our Show issue is something of which we're also proud. As our marketplace grows more complex, it also becomes more intertwined. Evidence? Contributing Editor Edward L. Kaufman's overview of globalization, beginning with vehicles and looking at the ramifications on parts suppliers, and eventually, retailers. Senior News & Feature Editor John Wirebach researched the WD-owned stores which are operated as retail competitors to the chains.

Also, we have features on employee benefit menus and computer software, and lots of products news to help you plan your walk through the Show aisles.

Join us in wishing APAA Happy Birthday! And let us hear from you. ■

Sarah Frankson,
Publisher

DETAILING THE MARKET

IN-STORE FOCUS

ADAP is a company strongly committed to growth. "The single greatest challenge facing our business is growth," Floyd Percy, senior vice president, marketing, said. "We plan to build 15 more stores through the balance of this year," Percy said, adding that the chairman of ADAP's parent company Rite-Aid (a drug store-based conglomerate) "says our goal is to have 1,000 stores within 10 years."

Supporting that goal, announced at ADAP's May trade show, means some changes within ADAP, including the show itself, which was the company's first. The show was aimed at "establishing more of a rapport between stores and manufacturers," said Percy. "We wanted to impart a lot of information about product, and that's what we did."

Reaction to the show was positive. A questionnaire sent to store people and manufacturers afterwards received positive reactions. As a result, the show will be a regular event.

Decisions like that are made at headquarters, even though owner Rite-Aid is involved in the operation. Duane Ruble, senior vice president, is the Rite-Aid executive responsible for ADAP. Reporting to him is ADAP general manager Frank Corella. Percy and senior vice president/store operations Don Hettrick in turn report to Corella. Although Ruble spends three days a week at ADAP, and handles its finances, the day-to-day operations are autonomous to ADAP.

"We do our own purchasing, and we develop our own package graphics, planograms, signing, ads and so forth," Percy said.

Like many large successful chains, ADAP's corporate headquarters runs a tight ship. The store managers must follow layout and merchandising from centrally provided planograms. Every ADAP store looks more or less the same, although they vary in size.

Existing stores run anywhere from 6,000-18,000 sq. ft. But a new 6,000 sq. ft. prototype is the ADAP store of the future. That small store size means tight control on ordering and strict conformity to inventory plans. Store managers follow corporate order books which provide specific guidelines for ordering; there is little room for individual variation.

ADAP feels this type of tight control is the only way to achieve the rapid expansion planned for the chain, and to meet the challenges of the years to come.

One of the biggest challenges, Percy feels, is to "be creative enough to help the do-it-yourselfer repair his car. The auto is becoming more complex, and we have to supply the DIYer with the products and diagnostic help he needs."

In addition, the chain faces some formidable competition, including Pep Boys in New Jersey and Motor Mart in western Massachusetts and Connecticut. ADAP pays careful attention to what the competition is doing—it monitors prices, product mix, advertising, and the like. "We probably visit the competition as much as we do our own stores," Percy said.

This attention to detail has led to a healthy bottom line, ($1.4 million profit in its latest reported year).

Coming in ADAP's future: another trade show, a new store decor package, and rapid growth. "It's a negative not to grow," said Percy. "Rite-Aid Corp. is a growth-oriented company; with them, to grow is to live." And since ADAP is part of the Rite-Aid family, it's bound to grow.

DETAIL

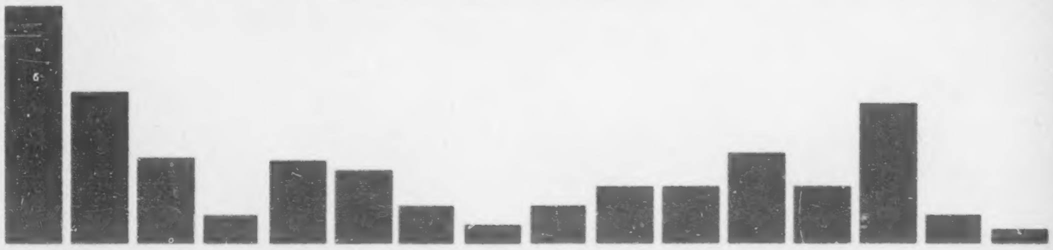
32%

more aftermarket products could be sold, with no increase in vehicle registrations, if all vehicles in America were properly maintained by their owners, according to the Motor & Equipment Manufacturers Association.

PROFILE: PROFESSIONAL, TECHNICAL WORKERS/DIYers

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study,* we look at DIYers who are also professional, technical, and kindred workers.

			Age					Income				Hours Per Month Spent On DIY			
Total	Male	Female	-25	25-34	35-44	45-54	55 +	-$20K	$20-30K	$30-40K	+40K	-1 Hrs	1-5 Hrs	6-10 Hrs	11 + Hrs
100.0%	64.3%	35.7%	11.2%	35.2%	31.1%	15.3%	7.2%	14.8%	23.5%	23.5%	38.2%	23.5%	59.2%	11.2%	6.1%



THE AUTOMOTIVE MARKETING INDEX

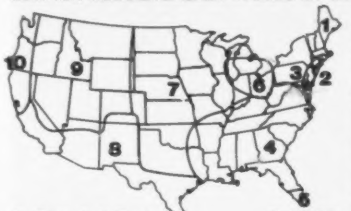
THE 1986-87 *AUTOMOTIVE MARKETING* MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index. The products include a non-resistor spark plug; an oil filter; a can of 10W30 motor oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

MAY 1987 NATIONAL AVERAGE MARKETBASKET PRICES

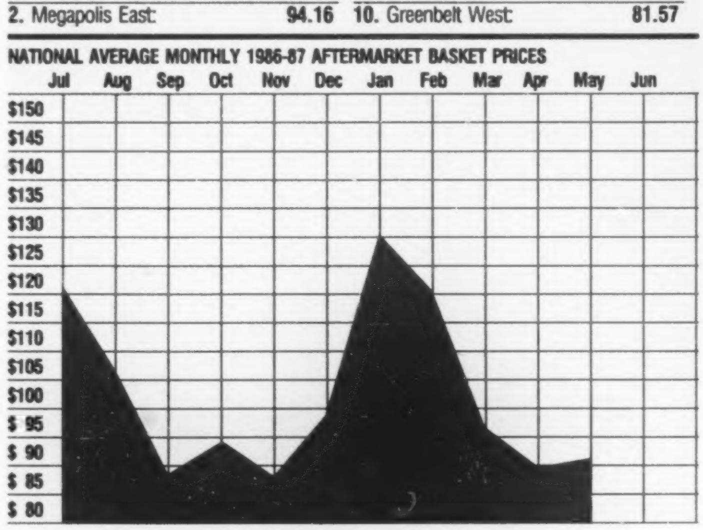
A non-resistor spark plug:	$ .72	A gas-charged shock:	$ 12.26
An oil filter:	2.38	One gallon of antifreeze:	3.63
A can of 10W30 oil:	.78	One pair of wiper refills:	2.39
A can of paste wax:	2.99	A 40-month battery:	29.63
An AM/FM/Cassette:	38.71	**Total:**	**$ 93.49**

MAY AM MARKETBASKET PRICES BY MARKETING AREA



3. Smokestack East:	$104.06
4. Old South:	88.25
5. Caribbean South:	93.56
6. Smokestack Central:	103.51
7. Grainbelt Central:	91.88
8. Spanish West:	90.14
1. Greenbelt East:	$ 93.85
9. Desert West:	93.04
2. Megapolis East:	94.16
10. Greenbelt West:	81.57

NATIONAL AVERAGE MONTHLY 1986-87 AFTERMARKET BASKET PRICES



AFTERMARKET BUSINESS INDICATORS

	Unit/Base	Mo/Qr	Current Period	Prior Period	Year Ago, Same Period	Low (61-87)	High (61-87)
Prime Interest Rate	%	May 19	8.25	8.00	8.50	–	–
Retail Sales	billion	Apr	$125.4	$125.2	$117.1	–	–
Consumer Price Index	67 = 100	Apr	337.7	335.9	325.3	89.3 May '61	337.7 Apr '87

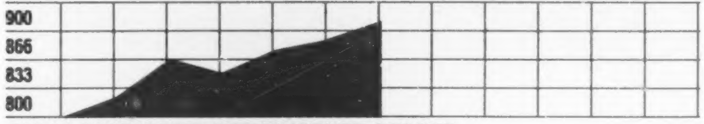
1987 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various aftermarket-related common stocks in various exchanges for the 52 week period prior to July 6.

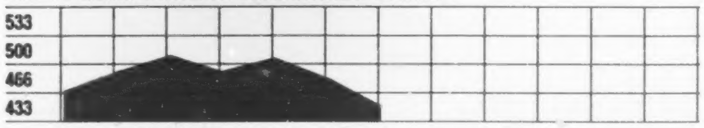
	Exchange	52-week High	52-week Low	7/6 Quote	P-E Ratio
Armor All	OTC	20 3/8	10 1/4	19 1/4	23
Cardis Corp.	AMEX	10	2 7/8	2 7/8	3
Champ Parts	OTC	12 1/4	3 1/2	10 1/2	48
Champ Spk Plg	NYSE	16 1/8	8 3/4	14 7/8	–
Chief Auto	OTC	12 1/4	4 1/4	15	17
Crown Auto	OTC	4 1/8	3	3 7/8	–
Dana Corp.	NYSE	49 5/8	25 1/2	44 3/4	26
Durakon	OTC	14 1/4	9 7/8	11 5/8	15
Echlin	NYSE	25 3/8	14 7/8	17 1/2	17
Facet	NYSE	21 3/8	8 3/4	18 5/8	26
Genuine Parts	NYSE	39 1/2	26 5/8	38 1/8	24
Grand Auto	AMEX	25 1/4	15 3/4	15 1/2	129
Mr. Gasket	OTC	15	4 3/8	6	–
Prkr Hannfin	NYSE	37 5/8	20 1/4	32 3/4	17
Pennzoil	NYSE	95	50 5/8	79 1/4	40
Pep Boys	NYSE	53	35 1/4	49 3/8	30
Perry Drugs	NYSE	20 3/8	9 1/2	11	–
Purolator	NYSE	40 5/8	15	36 1/2	–
Quaker State	NYSE	31 3/4	21 7/8	23 1/8	13
Republic Auto	OTC	9 1/4	6 3/8	7	–
Rite Aid	NYSE	39 3/4	26 3/4	38 1/2	12
Sealed Power	NYSE	37	23 1/8	36 3/8	15
Southland	NYSE	75 3/4	44	75 3/4	12
Stan Mtr Prod	NYSE	25 3/8	16 1/4	20 1/8	14
Superior Ind	AMEX	19 3/8	18 1/4	15 1/4	10
TBC Corp.	OTC	16 1/4	5 3/4	15 1/2	17
TRW	NYSE	55	48 1/2	53 5/8	16
Tenneco	NYSE	51 3/4	36	49 1/2	–
Tracor	NYSE	24	16 1/2	19 7/8	21
Trak Auto	OTC	18 3/4	11	14 3/4	46
Triad Systems	OTC	15 1/8	8 1/2	11 3/4	23
Witco	NYSE	47 3/8	31 1/8	39 5/8	13

DOW JONES 65 COMPOSITE STOCKS

Dow Jones 65 composite stock and *AM's* 16 aftermarket stock price as of July 6.



AM 16 COMPOSITE AFTERMARKET STOCKS



PRODUCT OF THE MONTH: SHOCK ABSORBERS

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study*, we look at the individuals who purchased and installed shock absorbers during a 12-month period.

			Age					Income				Hours Per Month Spent On DIY				Number Of Cars Responsible For		
Total	Male	Female	-25	25-34	35-44	45-54	55+	-$20K	$20-30K	$30-40K	40K	-1 hr	1-5 Hrs	6-10 Hrs	11+ Hrs	1	2	3 or More
100.0%	76.4%	23.6%	10.6%	28.4%	26.9%	16.3%	17.8%	24.5%	26.0%	21.2%	18.8%	13.0%	43.3%	25.0%	17.8%	26.4%	32.7%	40.4%

October 23. Salzberg said they'd received several inquiries from companies wanting to buy Tuneup Masters. And, Bear Stearns is studying whether to sell parts of the company, or all of it.

However, while Cardis goes ahead with its planning, Autospa, which operates 35 fast lube centers and has 500 additional franchises sold (projected 1987 sales: $4.5-$5 million), believes it has a binding agreement to buy enough stock to gain control of the troubled warehouse company. The original letter of intent was signed on April 1. Autospa calculated its total investment in Cardis would come to between $50 and $55 million.

But on June 3 Cardis announced that negotiations had been terminated and the deal was off.

"The original agreement specifically said it was subject to a definitive agreement to be signed by April 22," Salzberg said. "There was no agreement entered into on April 22. It was subject to financial arrangements and none of the conditions were met by Autospa."

Autospa feels differently. Autospa chairman Benjamin Zitron told us Salzberg was "150% incorrect. We're ready, willing, and able to go ahead." Zitron said the agreement is binding, and Cardis had no basis to terminate the agreement unilaterally. He also feels Autospa should have the right to approve any debt restructuring or "redeployment of assets." Zitron said Autospa has also engaged the law firm of Skaddens Arps Slate Meagher & Flom to advise it on all alternatives to enforce the agreement. "We're actively pursuing the alternatives. There's no particular rush," Zitron said.

Zitron added that he agreed with the assessment that Autospa had been used by Cardis to gain a stay of execution. "The suppliers should thank us. We may or may not be used again."

What will happen? Several Cardis employees said they have a "very temporary feeling" about their jobs. Vendors were also worried. "If they don't make the Fall payment on those balloon notes, that's it," one supplier said.

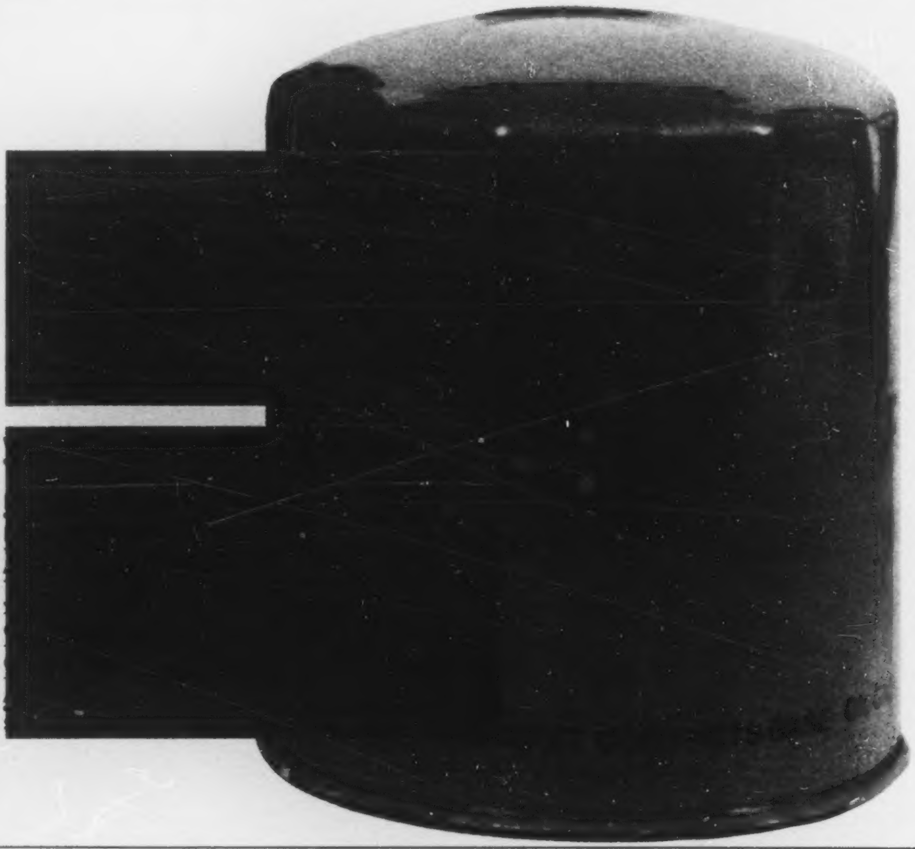
If Cardis goes bankrupt, it will leave a distribution void on the West Coast since Cardis represents perhaps as much as 40% of California parts sales. Cardis also represents the largest single entity in Carquest programmed distribution group, and a Cardis failure means trouble for that group.

However, if Autospa succeeds in gaining control of Cardis, it might also mean chaos since most observers feel Autospa only wants Tuneup Masters and intends to split up and sell off the warehouses individually to finance the purchase.

The key will be whatever Cardis decides to do with Tuneup Masters. Stay tuned for further developments. ■

Fast Lubes, More SKUs Both Impact Today's Changing Oil Filter Market

The Baby Boomers are a little older, and they represent a big part of the DIY market," the product manager for one oil filter manufacturer said. "Now that he's older and more affluent, the Boomer doesn't want to spend a lot of time under the car. He doesn't want to get his hands dirty."



That may sound like a sociological report, but it's really the key question in the oil filter market over the next three to five years: How big an impact will the fast lube operations have on oil filter sales?

Right now, the oil filter market splits almost evenly, with installed sales slightly higher than DIY sales. Fast lubes sell about 3-4% of the total market. But several oil companies are investigating the market and Sears, the nation's largest retailer, is rumored to be testing a fast lube operation for its 700 auto centers to roll out in the Northeast in 1988.

So most oil filter suppliers expect the fast lubes to be installing 15-20% of oil filters or more by 1990. As a result, all the major suppliers are looking for ways to get into the fast lube market.

Facet Automotive Filter Co., Tulsa, OK, presently dominates the fast lube market with 70-80% of the market. Facet produces private label filters for Valvoline and Pennzoil, the major oil supplier to fast lubes. Facet's acquisition of Purolator adds the dominant share of Jiffy Lube business (Champion Labs have a smaller share along with OE suppliers). Interestingly enough, Facet also supplies Minit Lube, the second largest fast lube, although Minit Lube is owned by Quaker State. Quaker State buys Fram filters.

The key to fast lube sales is, in the words of one fast lube operations manager, "A sense of urgency. If we're out of a filter, we're in trouble. We lose the customer. So, coverage and availability are critical. The major suppliers are still not used to this."

Coverage means about 200-280 SKUs for Jiffy Lube (depending on vehicle demographics). Availability means drop shipping to each location. This is a challenge for suppliers used to shipping skids and truck loads to WDs' and retailers' central warehouses. A number of suppliers think that eventually fast lube centers with storage space will become regional warehouses. There's also the possibility of wagon jobbers entering the market. There are serious problems for suppliers to overcome in selling the market but the fast lube potential fascinates suppliers.

[illegible]

Does this foretell a drastic fall in the DIY market? No, say suppliers. However, fast lubes, more complex cars, and oil disposal rules will all affect the DIY market. One supplier's study shows that 10-11% of DIYers, termed "reluctant DIYers," may switch. But the DIY oil/filter change market will remain in the 40%-plus range for the foreseeable future.

This means retailers will continue to reap the benefits of intense competition on the part of suppliers. One retailer summed it up this way, "The filter industry is in a shakeout mode. It's depressed in profits and suppliers are not able to get price increases. Everybody's hungry, everybody's cutthroat. I like the idea myself: a phone call to X makes Y jump."

Six large companies supply about 90% of the oil filter market. Fram Division/Allied Automotive, East Providence, RI, and the merged Facet/Purolator combo are the two top guns. Together they share about half the market, with Fram slightly ahead.

Fram enjoys the best brand awareness and the biggest brand sales in the filter market. Competitors had nothing but praise for its operations. "They stay close to their customers," one competitor noted. If it has a weakness, it may be over-

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MARKET LINE

MARKET LINE

distribution. As a competitor said, "They have to be careful about overdoing a good thing."

Facet is the larger side of the Facet/Purolator combo because of its strong private label sales. For example, K mart, the largest retail distributor of oil filters, buys two-thirds of its inventory from Facet. As noted above, Facet also has the lion's share of the fast lube business and will benefit from its growth. In addition, the merger gives Facet a tremendous brand/private label package to offer retailers and program distributors where Purolator had yet to make significant inroads. But, as a competitor said, "Facet has tremendous ins in the retail market. They need to be watched carefully."

Just as there are two large suppliers, there are two mid-range suppliers. AC-Delco, (part of General Motors), Detroit, and Wix Corp. (part of Dana Corp.), Gastonia, NC both sell about 10-15% of the market.

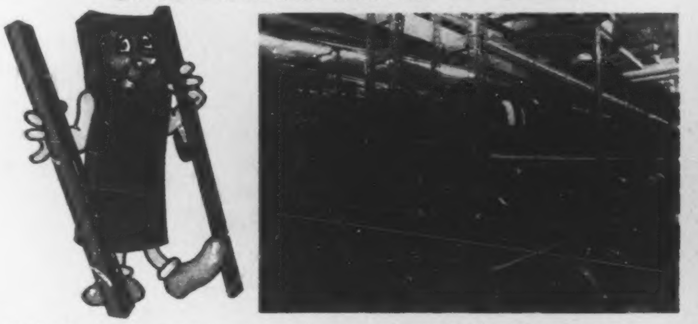
Next to Fram, AC-Delco has the best brand awareness, thanks to spokesman Brigadier General Chuck Yeager. AC-Delco's strength is its OE connection; likewise, its weakness is the OE connection. Any company that sells OE filters for the 53 million GM vehicles on the road has a built-in sales advantage. However, competitors feel it's hard to sell AC filters for non-GM vehicles to retailers. They also feel that AC sales personnel may not try hard enough to sell the complete line.

Wix is the major supplier to the traditional side of the market. NAPA, APS, Carquest, and all the big programs except Bumper-to-Bumper are Wix customers, as are several large oil companies. Wix is not known for discounting, so the brand is seldom seen on retail shelves. Yet it also sells Sears private label filters. Its strength is a very long line (close to 300 SKUs in oil filters). Competitors say its weakness may be that the company has "painted itself in a corner" by telling traditional customers it will not low-ball.

The final two major suppliers are both hovering around the 8-10% range; they are Champion Laboratories, Albion, IL, and Motorcraft-Ford Parts and Service, Dearborn, MI.

Champion Labs has enjoyed nice growth in recent years mostly in private labels (parts of the K mart, Jiffy Lube, and Motorcraft business, as well as the AutoValue programmed distribution group are major customers). Champion also owns the Lee brand name. Competi-

SHELVING AND MORE



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tors feel that Champion must still build a consumer franchise for the Lee brand, an expensive proposition.

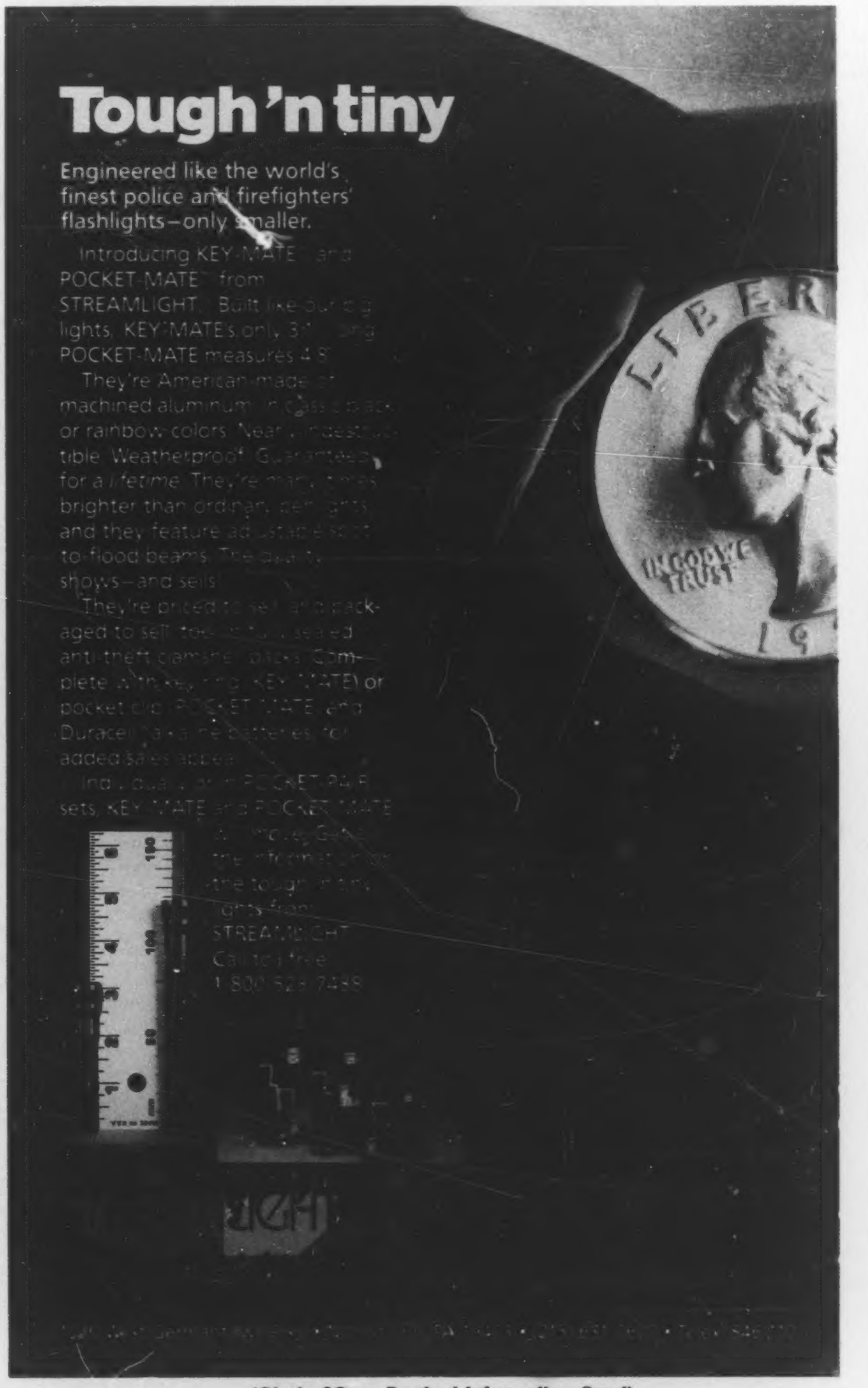
Motorcraft is in much the same position as AC-Delco, except, of course, it's OE to Ford. However, unlike AC-Delco, Motorcraft sources the majority of its filters from Champion Labs, Facet, and Wix. "It's a very strange situation," one supplier said, "to be competing with yourself." Motorcraft splits its sales about evenly between traditional and retail and does an aggressive selling job, competitors said.

The six large suppliers may be joined by a seventh if Champion Spark Plug Co., Toledo, OH, successfully markets its filters. Building on consumer awareness of Champion spark plugs, the company will market, among other products, a line of private label Champion-brand filters made by Facet. The advantages of a single selling organization, shipping benefits, and opportunities for cross marketing will all help the line. And, Champion feels even a 2-4% share of a $950 million market will be successful. But competitors feel Champion has "a long row to hoe" in getting retailers to take on the Champion filter line.

One thing that may work against Champion will be parts proliferation which may change the way retailers stock oil filters. Right now, virtually every retailer stocks two brands of filters and many carry three or even four. The ideal lineup, we're told, is a name brand, some AC/Motorcraft SKUs, and a private label. About 22-24 SKUs ensures good coverage, although one supplier noted, "You can still cover a lot with only 12-13 SKUs." But parts proliferation will end this ability to cover extensively with only a dozen SKUs.

"The days of selling millions of a single model are gone," a supplier said firmly. One supplier noted that one SKU accounted for 35% of his sales in the past; now that SKU is down to 20%. Almost unanimously, suppliers felt SKUs would double in the next three to five years, especially in import models, for the retailer who wants the best coverage.

For the suppliers, parts proliferation demands quick change lines and cost effective management of their factories. For the retailer, it may mean a choice between cutting brands or devoting more space to filters. Parts proliferation will be even worse in air filters, according to suppliers. And so, suppliers expect competition to get even tougher for shelf space. ■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Precision Tune Aims For 1,000 Centers

Precision Tune Inc., Beaumont, TX, the largest tune-up franchise chain with about 400 location and 1986 sales of about $85 million, was sold by founder Bill Childs in April to a group of investors headed by Donald E. Ervin.

Automotive Marketing recently spoke with Ervin and his "right hand man" vice president Scott Morrison about Precision Tune's future.

Ervin was a banker in the Washington, DC, area for 28 years before buying Precision Tune. However, he'd become disenchanted with the banking industry and U.S. monetary policies and had been looking at the franchise industry for the last few years.

He was impressed with the automotive aftermarket: "It's a gigantic market, insulated somewhat from the general economy and not subject to business cycles. Even when times are bad, people have to hang on to their cars."

AWDA Study Finds Profits Slipping Down For WDs

The annual financial analysis conducted by the Automotive Warehouse Distributors Association (AWDA) found that after three years of rising profits, pre-tax income peaked at 3.82% of sales in 1984, and then declined for the past two years. The 1986 decrease to 2.46% put the results at the lowest level of this decade, below the recession years of 1980-82.

The AWDA data is based on operating results from 136 member WD companies with average annual sales of $12,349,576. The study is compiled for AWDA by John X. Wegmann, CPA with Wegmann-Dazet & Co., New Orleans, LA.

The major contributing factor in profit decline is increasing payroll costs. Payroll costs climbed to 10.6% in 1985 and reached 10.77% in 1986. The study notes that other expenses have also increased. Insurance expense rose from 0.19% in 1984 to 0.43% in 1986, while bad debts have also risen from 0.22% to 0.46% during this same period.

On the bright side, the traditional side has seen the sixth consecutive year of real sales growth (slightly over 2%), relatively constant gross margins at nearly 25%, and a slight increase in inventory turnover to 3.6 turns. ■

THE 10 LARGEST WAREHOUSE—OWNED STORE OPERATIONS

Although there are several jobber chains larger than some on our list, most of these are jobbers with a captive warehouse. Our list is limited to full-line warehouses that meet the Automotive Warehouse Distributors Association (AWDA) criteria for membership. See our story on warehouse-owned stores in this issue for a closer look.

Stores	Warehouse/ Store Name	Location	Mostly Retail Or Wholesale
450-plus	Genuine Parts Co./NAPA	Atlanta, GA	W
195	A.I. Automotive/Bumper To Bumper	New York, NY	W
147	Steego Parts Corp/Steego	W. Palm Beach, FL	R
116	APS Inc./Big A	Houston, TX	W
110*	General Parts/Carquest	Raleigh, NC	W
87	Straus-Frank Co./Carquest	San Antonio, TX	W
82	Ozark Automotive Dist./ Ozark/O'Reilly	Springfield, MO	R
75	Fisher APW/Fisher Auto Parts	Staunton, VA	W
73	Hi-Lo Consolidated/Hi-Lo	Houston, TX	R
56	Motive Parts Whse./ Green Light Auto	Fort Smith, AK	W

* Note: General Parts participates in the ownership of 110 stores to some extent in partnership with owner/investors.

Source: Automotive Marketing from various sources.

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TRADITIONAL MARKET

MEMA Study: One Jobber Store Fails Each Day

Between 1979 and 1986 about one jobber store a day closed its doors and went out of business.

That's just one of the fact from a study of automotive jobbers produced and marketed jointly by the Motor and Equipment Manufacturers Association (MEMA), Englewood Cliffs, NJ, and Lang Marketing Resources Inc., Midland Park, NJ.

MEMA published previous jobber studies in 1980 and 1982. The new study found about 28,000 jobber stores in operation, approximately 2,200 fewer than in the 1980 study.

Of the 28,000 stores, about one in four is part of a multiple store operation, and the multiple store operations account for more total sales than the remaining 21,000 single-store operations.

Although the great majority of jobbers are still small businesses, the jobbing business is changing rapidly. For one thing, jobbers are becoming more sophisticated. Over 60% are computerized (compared to about 20% in the 1980 study), and by the end of the decade over 40% will be electronically linked to manufacturers.

JOBBER BUSINESS

Although the percentage of jobber business represented by retail volume has grown at a slower rate in recent years, retailing has still increased fourfold since 1971.

1971	9%
1975	16%
1979	29%
1982	32%
1986	36%

These are the segments that represent the largest portions of jobber sales:

Retail Sales	36%
Independent Repair Shops	18%
Service Stations	15%
New Car Dealers	9%

Where jobbers buy product by 1986 percentage of dollar volume:

WDs	61%
Direct Buying	28%
Specialty WDs	9%
Other Jobbers	2%

Source: MEMA

Another change is the rise in jobber operations with machine shops. Today, nearly 60% of jobbers offer machine shop services, compared to 51% in 1980.

The study also shows a continued rise in retail sales as part of the jobber's business. Although the percentage of jobber business represented by retail volume has grown at a slower rate in recently, retailing has still increased fourfold since 1971.

Several other study findings demonstrate the growing importance of retail business to the jobber:

- Only 70% of jobbers (compared with 85% in 1979) have any outside salesmen and only 44% employ full-time outside salesmen.
- More than half of all jobbers participate in some kind of programmed distribution group compared with about a third of all jobbers in 1979.

Still, in its presentation, MEMA said it believes that DIY growth is slowing in recent years and the jobber faces increased competition for the DIY dollar from auto chain stores.

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ness, jobbers have enjoyed growth in percentage of sales volume from independent repair shops (from 17% in 1979 to 18% in 1986), and new car dealers (from 8% of volume in 1979 to 9% in 1986).

In contrast, four types of business represent smaller portions of jobber volume. Service stations show the sharpest decline, dropping 4% to 15%, while heavy duty trucks (4%), industrial accounts (4%), and mass merchandisers (1%) have all dropped a single percentage point since 1979.

There are also some significant changes in where jobbers buy products, according to the study. For example, jobbers buy 6% less of their dollar volume from WDs than they did in 1979. Increases went to specialty warehouses (including discount operations) and direct buying.

As part of its preliminary presentation of the study, MEMA reported on three problem areas in terms of jobber competition for business:

- In retail sales, auto chain stores offer better prices and a better assortment than ever before.
- In pursuing retail sales, some jobbers have curtailed vital services important to develop wholesale trade such as outside salesmen and delivery services.
- There is growing evidence that jobbers are losing more than 25% of the import replacement market to other types of distribution.

According to MEMA, these are all areas in which WDs and manufacturers must work together to increase jobber competitiveness.

To obtain the full report, contact MEMA, 300 Sylvan Ave., Englewood Cliffs, NJ 07632, (201) 569-8500. ■

UPDATES

The Fast Lubes And Battery Imports Grow

To keep you current, *Automotive Marketing* updates some recent stories about market trends.

- **Fast Lubes**

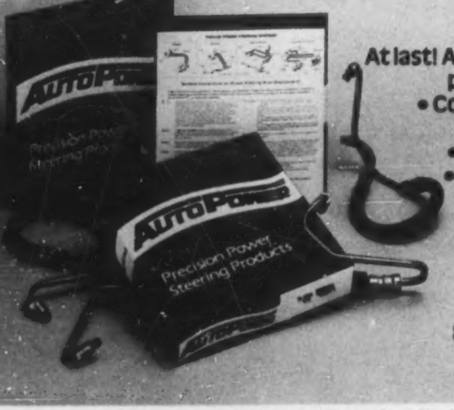
The fast lube market continues to see strong growth. Market leader Jiffy Lube, Baltimore, plans to have 700 centers operating by the end of the year. President Dick Breen said they are "clearly determined to be the first to open 1,000 centers." Jiffy Lube sales were about $150 million in 1986, up from $91 million. Breen added that Jiffy Lube has two centers open in France and will open shops in Canada, Australia, England, and the Netherlands in the next year.

Earlier this year, Jiffy Lube failed in an attempt to purchase number three fast lube, Grease Monkey, Denver, CO. Grease Monkey president Art Sensinig said Jiffy Lube made two offers, "but they were just not enough. We're just not interested in selling." Sensinig said Grease Monkey sales were about $16 million in 1986. The company should have 125 locations ("That's minimum," said Sensinig, "a number set in concrete") open by year end. Number two Minit-Lube, owned by Quaker State, will have about 200 open by the end of the year.

- **Battery Market**

The acquisition by Exide, Horsham, PA, of the General Battery Co., Reading, that we discussed in our June battery story is now complete.

In the same battery market story, *Automotive Marketing* did not discuss the impact of imported batteries. About 3.6 million batteries were imported in 1986, compared to only 2.0 million in 1984, according to the U.S. Battery Trade Council (USBTC), which monitors imports. Although many of these batteries are not au-



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THE CHANGING MARKET:

Where We Are, Where We're Going

Judith A. Broseker, managing director, market research, APAA: "I don't like to be pessimistic."

Changes in distribution patterns, vehicles, and customers are seen by industry market research.

by **Philip Katcher**, Research Editor

We're looking at an aftermarket that is fundamentally different now than it was less than a decade ago, according to trends seen by Judith A. Broseker, managing director, market research, of the Automotive Parts and Accessories Association (APAA) and executive director of APAA's Foundation for Aftermarket Industry Research (FAIR). The FAIR research projects show the aftermarket as greatly affected by changing basic distribution patterns and its customers and their vehicles.

"I don't like to be pessimistic about the future," she recently told *Automotive Marketing*. "And, it's difficult to predict the aftermarket's future because it's changing so fast. Still, there are a couple of major trends that we can see developing."

Specifically, Broseker notes that FAIR studies have indicated increased growth in the sales of imported vehicle parts by aftermarket retailers; increased growth in specialty repair shops; and increased numbers of non-traditional retailers such as drug and discount stores that sell automotive parts.

Broseker's organization, FAIR, is a self-funded, non-profit organization founded in 1980 by APAA as a separate corporation to carry out research for the association. It has tracked several areas of concern for aftermarket retailers for some time now. FAIR released its first study on one crucial topic, *Retail Distribution of Automotive Products*, in 1980. It updated this in 1983 and again in 1986.

Non-Traditional Growth

The six years since the first study have seen definite changes. "We found that non-traditional type outlets handle and sell auto parts in ever increasing numbers," Broseker said. "There has been a 10% increase in the number of discount stores selling auto parts since 1983. We're seeing more grocery stores, drug stores, and department stores selling auto parts. And, we'll see more of that by 1990."

In fact, FAIR found that 6,300 more food stores, 600 more drugstores, and 700 more discount stores were selling automotive products in 1986 than were in 1983. On top of that, 800 hardware stores started adding automotive products to their inventory over the same three-year-long period.

According to FAIR's study, the years since 1983 have seen 11,400 fewer retail outlets that handle automotive parts in business. There were 16,100 less service stations, an 11% decline. There were 900 fewer new car dealers that sold automotive products in 1986 than in 1983.

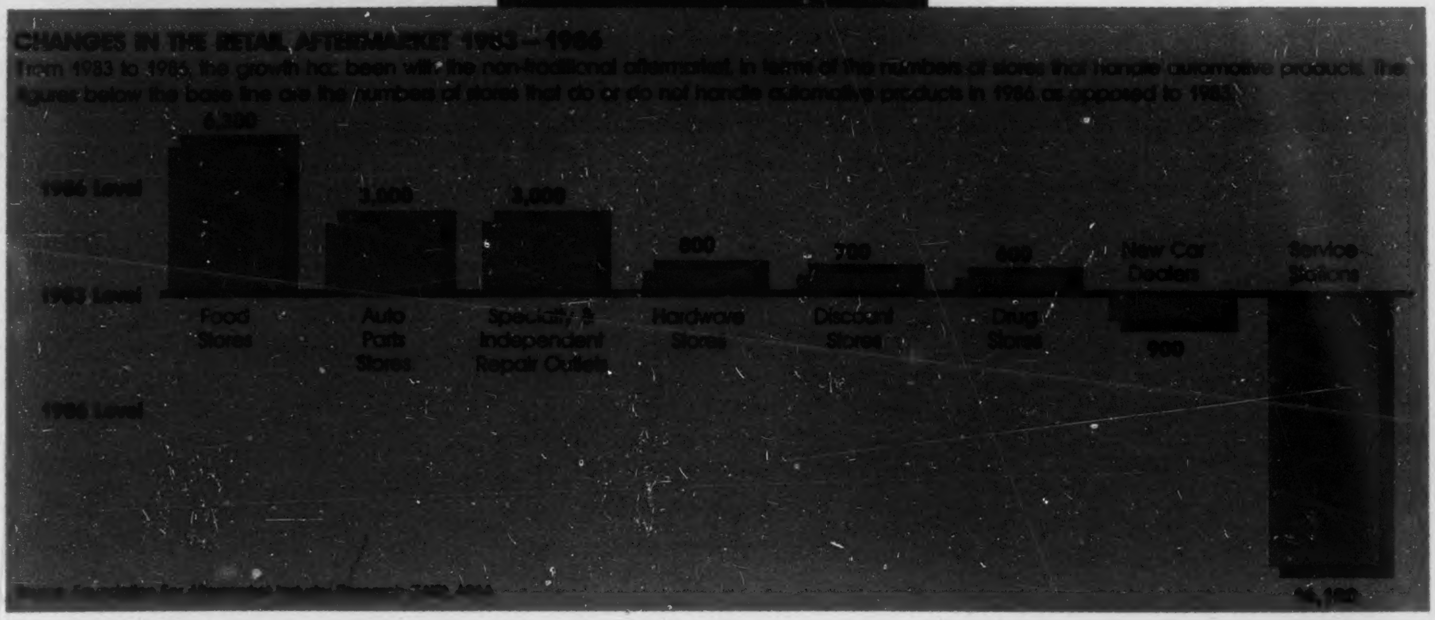
At the same time, mass market retailers have added automotive products to their inventory at increasing rates. And, there were nearly 41,000 auto parts stores in 1986, up from the 38,000 FAIR found in 1983. This represented a 7.6% increase over the period.

And, specialty repair shops and independent repair outlets have grown at an annual rate of 3,000 outlets since 1983. "We're seeing specialty repair shops taking over for service stations and independent garages," Broseker said.

The Import Problem

The distribution study is only one of

THE CHANGING MARKET



CHANGES IN THE RETAIL AFTERMARKET 1983 – 1986

From 1983 to 1986, the growth has been with the non-traditional aftermarket, in terms of the numbers of stores that handle automotive products. The figures below the base line are the numbers of stores that do or do not handle automotive products in 1986 as opposed to 1983.

several FAIR studies done in different areas in which significant changes have been found.

In 1985, FAIR produced a study, titled *Dynamics of the Import Aftermarket*, that analyzed the impact of imported vehicles on the U.S. automotive aftermarket, drawing on material produced through *Automotive Marketing's 1985 Consumer Automotive Repair Study* and APAA's Market Research Committee. This is still, even after the study's publication, an area in which FAIR is interested. "We have to address the import question," Broseker said. "It's a trend that will not go away."

This study predicted that sales of imported cars and light trucks would continue to boom. "To meet increasing demand, virtually all retailers sampled by FAIR sell parts for imports," Broseker said. "More than two-thirds have experienced increased sales of parts for imports during the 1984-85 year. They fully expect this growth trend to continue and nearly half are planning additional space allocation for parts for imports. The majority said they use domestic sources of supply, primarily full-line parts distributors and manufacturers.

"Only 5% import directly from offshore suppliers, primarily because of lower product costs," she continued. "As you would expect, the larger the size of the store with respect to the number of outlets operated, the greater the likelihood of importing directly. Of those who do, almost 60% have increased their purchase volume from Japan."

Looking At New Areas

FAIR has a couple of new studies up its sleeve that will be released shortly. These have taken a longer time than expected to produce, having hit a couple of rough spots in their production, but promise to be worth the wait.

"One of our big projects has been our 'cost of automotive retailing study'," Broseker said. "This is a national survey that looks at the total operating statistics for retailers. The statistics are broken down into an overall average, and then by different variables such as sales, trade area, volume, store size, and ownership."

The study's purpose is to provide APAA members with a means to compare their operations, with similar operations. The study was based on the results of questionnaires mailed to non-member retailers as well as association member retailers.

This study is filled with revealing data. For example, the FAIR study reports that the average auto parts retail store, nationwide, has a 3.3% pre-tax net profit, while its return on assets is 7.85%.

As well, FAIR will shortly release its *Consumer Buying Patterns Study*. This study was done to learn why consumers choose one outlet over another when purchasing automotive products and to analyze purchase behavior by demographics as well as psychographics. The study was conducted in 14 different types of retail outlets (some 210 stores in all) in the Cleveland area. Similar studies will be conducted in different areas, Broseker said, and eventually a national study will be put together from the various regional ones.

Speaking of consumers, Broseker said that she has observed a definite correlation between advancing age and declining DIY work, something that will become important to retailers as the "baby-boomers" get older.

Timely, Comprehensive Information

FAIR's work is governed by the APAA Market Research Committee, which is charged with providing APAA's members with timely and comprehensive market information.

The actual areas that the committee chooses to investigate are determined by perceived member and market needs, most often solicited through membership studies. As Broseker said, "We're basically member-driven, doing research that people want us to do so they can stay on top of the industry."

The Market Research Committee set a goal of completing one major research project each year. Its first distribution study was released in 1981. The 1982 study, *Auto Supply Retailer Operations*, showed how different sorts of operational factors, such as square footage, types of lines carried, number of cash registers, store house per week, and customer credit, influence profit. A section also showed the manufacturer and rep how to contribute to the success factors for their retailer customers.

FAIR updated its distribution study in 1983 and 1986. The updated *Retail Distribution of Automotive Products* was released in 1984 and 1987. As well, FAIR completed the *Traditional Distribution of Automotive Products* that year. Both studies were updates of the original 1980 research and assessed changes in the number and type of outlets handling automotive products.

As for the future, Broseker and the committee see the need for an industry retail sales tracking program, to follow the sales of products by product line and type. They also perceive value in the development of an overall industry status paper. We'll be watching for them. ■

A Good Year, An Uncertain Decade

1986 looked good to retailers, as does 1987 so far. But the future is uncertain.

by **Philip Katcher**, Research Editor

According to many retailers, 1986 was a better year than 1985, and 1987 should be even better. The average chain *Automotive Marketing* surveyed reported an 8.67% growth in 1986 over 1985. Some did considerably better: Jack M. Gallagher, president of Perry Drug Stores' Auto Parts Division, reported an impressive 14% increase in 1986 over 1985.

And, the average retailer says growth in 1987 will be 9.25% better than it was in 1986.

This growth, however, will have to come by increasing market share rather than through an industry-wide expected growth. William F. Prebe, vice president-economist of the Dana Corp. sees only a 3% industry-wide growth rate for replacement parts, while Robert C. Rogers, vice president of training for Camelot Inc., Kansas City, MO, believes the aftermarket faces a 2.6% growth rate.

Looking beyond 1987, however, is even more uncertain and actually frightening in at least two major areas. Megachains, with more than 100 stores each, threaten the existence of smaller, independent chains. And, there's even considerable doubt about the future of the basic customer, the DIYer.

The Megachain Future

It's no secret that the big seem to be growing bigger, while the small are being absorbed or fall to the wayside. Even larger chains have been snapped up by even larger, often multi-national, corporations. Ask a vehicle owner in Miami what The Whitlock Corp. is. While the name Rose Auto Stores is recognizable to aftermarket shoppers there, few if any would know the name Whitlock. Yet, as of last year, Whitlock is the parent company, and Rose simply one of its branches.

"The aftermarket will see continuing shrinkage in single unit stores," believes John J. Sherlock, president of Jay's Da-Nite Auto Supply Inc., Tucson, AR. "Chains will continue to produce many 100-400 unit operations." Moreover, "The marketplace will continue the trend to increased competition, putting a squeeze on profits," he says.

Ellida Kirk Lathrop, president of A.A. Auto Parts Inc., a four-store-chain headquartered in Tacoma, WA, is another aftermarket retailer who sees even greater pressures in the future on small, independent aftermarket retailers. What lies ahead, she fears, is "the big getting bigger, the independents turning into America's serfs. Smaller profit margins as mass merchandisers set the prices. A freeze-out in the aftermarket by new car manufacturers and importers."

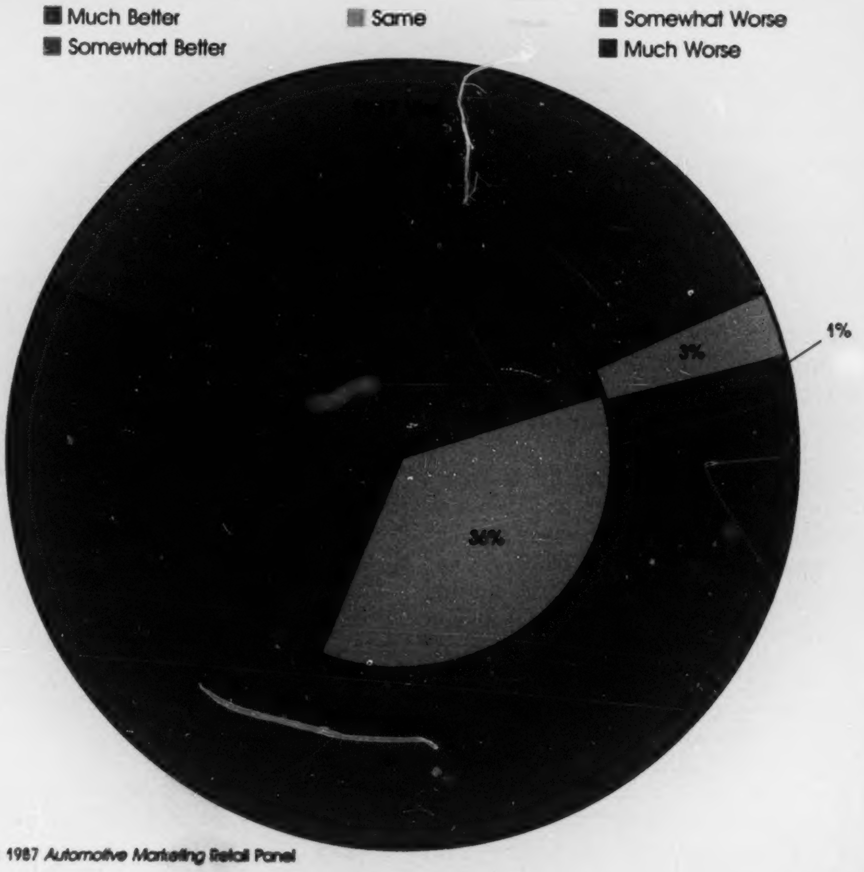
David H. Wallace, president and CEO of National Automotive Superstores, a 14-store chain based in Pensacola, FL, agrees about the rise of large chains being a problem for smaller ones. "Retail sales are dominated by national and/or large regional chains," he feels. The result? "Margins are being squeezed," he says.

This is obviously a potential problem for the independent aftermarket retailer. Is it a real problem for the aftermarket as a whole? Obviously not for those few chains that are already large. Probably not for the consumer in the short run, who usually pays lower prices for product offered by large chains. But, in the long run, having sources of supply of any product concentrated in a relatively small number of hands eventually could lead to reduced competition, with higher prices and reduced product availability.

The Future Of The DIYer

There's a Greek chorus of aftermarket retailers out there singing the "death of the DIYer blues." "The compactness and types of control systems used on today's vehicles will eventually lead to little or no DIY customers," believes John H. Davidson, president of Family Tire Center Inc., Marion, OH. Daniel Mahon of Mercury Tire Co., Wilmington, CA, is even blunter. "The backyard mechanic is gone, 'period, paragraph'," he says.

Then, there's the question of whether extended service warranties will discourage vehicle owners from fixing their vehicles themselves, taking them back to the



1987: THE VIEW NOW AND A YEAR AGO

Last year, we asked retailers how they saw 1987 shaping up as compared to 1986. We asked retailers the same question this year. On the whole, retailers are much more optimistic about this year now than they were in 1986.

Source: 1987 *Automotive Marketing* Retail Panel

dealers, instead. Jay's Da-Nite's Sherlock sees everything as part of a single problem. "The future will be affected by extended car warranties *and* the complexity of automotive computerized ignition/fuel injection/emissions closed loop control systems," he believes.

President Marvin E. Berger, Rayco Auto Services, Springfield, PA, is another one of those who worries about extended service agreements. "New car continued service warranties will critically affect the independent service operation just as they were gaining sales from the gasoline stations' elimination of services in converting to 'gas & go' self service."

Even so, the verdict on the DIYer's future is still uncertain. Ron Hicks, of Houser Automotive, Granite City, IL, is one aftermarket retailer who is optimistic about it. According to him, there will be more DIYers active in the future than there are now. The reason? "The cost of labor, which can run to $45 an hour, makes it tough for the average household head to take his vehicles into a shop."

Auto Works' Gallagher agrees that DIY will continue to boom. According to his observations, "more car owners are performing basic maintenance themselves and the do-it-yourself market is growing."

And, M.J. Frank, president of Frank's Auto Supply, Uniontown, PA, thinks the potential problem can be resolved through the introduction of changed "underhood products for DIYers." That hits the ball to the manufacturers' courts. And, that may well be the eventual answer, for manufacturers have risen to the occasion in the past very well, introducing new products to meet new needs, while phasing out ones that are no longer needed. Today, it's hard to find a replacement manual choke knob but it's easy to find a third brake light to install on an older vehicle.

Solving The Problems

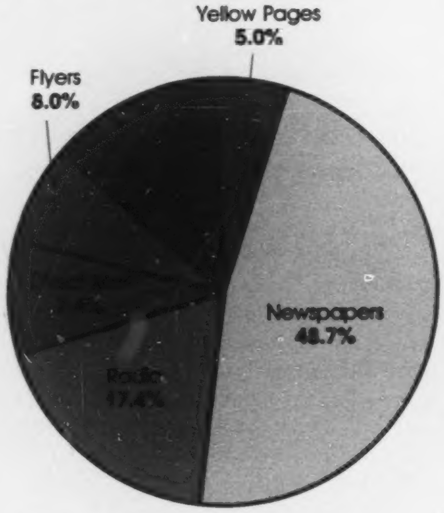
Frank's is just one possible solution to the problem. Different retailers have more and different solutions for these problems.

Some involve expanding the customer base. Yale Weisman, secretary-treasurer of Chicago's Blue Star Stores, says his chain is changing its approach to become "more consumer oriented" by adding hours. John F. Goodsell, president and chief executive officer of Grand Auto, a West Coast chain of 113 stores, reports that his company has introduced a new advertising campaign "to expand our customer base by attracting a growing body of affluent, young auto enthusiasts."

Another solution involves increasing service operations. Goodsell adds that, "in response to the increasing sophistication of automotive technology, we designed a cleaner, more comfortable prototype for Grand Auto service shops. While upgrading these shops will be a continuing cost factor in 1987, the growing demand for courteous, professional repair service makes them a critically important aspect of our total business."

WORKING FOR FUTURE GROWTH: ADVERTISING

One way that many retailers are attempting to solve growth problems is through increased advertising. The average retailer, we found, spent 4.4% of his annual sales on advertising. And, a surprising amount of it goes to electronic media.



Source: 1987 *Automotive Marketing* Retail Panel

Grand is far from the only retailer to see service as a key ingredient to future growth. For example, Bob Karcher, president of Dutchie's Auto Parts, a five-store chain in Vancouver, WA, thinks it's going to be so important that he is launching into a major program to bring service bays to his chain in the near future.

Both Houser's Hicks and Frank's Frank see a solution to the potential decline of DIY activities in consumer education. Says Hicks, "most car owners don't have the knowledge to work on their cars, and use lots of guesswork." The answer? Training customers to work on their vehicles, done by both retailer and manufacturer.

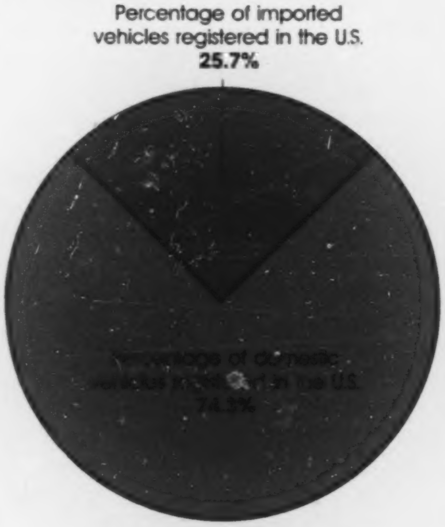
Expansion plays a part in a number of growth patterns. "Expanding into the import aftermarket," is the plan of Bridgeport Auto Parts' Tim Conway. Auto Parts World's Dabrowski and Mike Jones of Jones & Jones Inc., McGehee, AK, look for overall expanded inventories to help future growth.

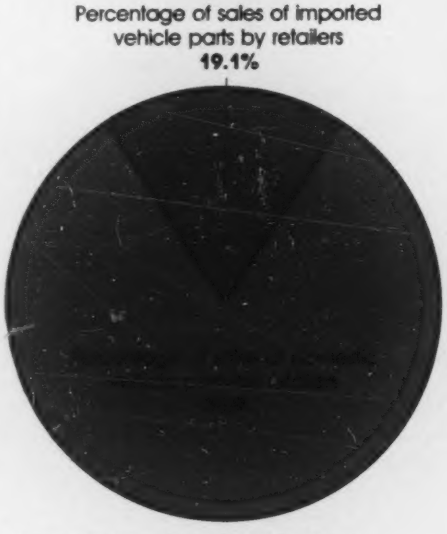
Employee training, both initial training in sales and product knowledge and later retraining as needed, is one key to success as seen by Jim Cumming, Cumming-Henderson, Santa Clara, CA, and Mercury's Mahon. Family's Davidson adds that "ongoing service training and equipment updates" is necessary as well.

A.A. Auto Parts' Lathrop has a variety of solutions. Her chain is "looking for a non-traditional niche in the market. Providing more community service instead of paying for advertising. Upgrading the level of employees. Sponsoring on-going training programs. Reassessing hours, locations, especially as they relate to female customers. Firing any employee who has *one* customer complaint. Fiercely protecting our independence even if we become a dinosaur in the overall marketplace. Looking for better buys, more advertising dollars from suppliers. Reducing show attendance costs as too high and too much duplication, and depending more and more on reps. Not following the 'herd'."

WORKING FOR FUTURE GROWTH: IMPORTED PARTS

Record numbers of imported vehicles are registered annually. Yet sales of parts and accessories for these vehicles has lagged, retailers tell us. Hence, this area still represents a future growth area.





Source: 1987 *Automotive Marketing* Retail Panel

Finally, Jay's Da-Nite's Sherlock, sums up his plans to meet the future: "We are modernizing our stores and store layouts. We are buying and stocking on a more analytical basis. We continue to train sales and management personnel. We work hard. We pray a lot."

It can't hurt. ■

WD RETAILING

The Ma and Pa jobber store is on the way out; the warehouse owned store is on the way in. Here's why.

by **John Wirebach,**
Senior News and Feature Editor

The warehouse-owned jobber store is certainly not new. Traditional WDs such as Alexander-Seewald in Atlanta have owned stores since the 1890s. In fact, most of the original founders of the Automotive Warehouse Distributors Association (AWDA) began as jobbers, and many again own stores today.

But in recent years the number of warehouses owning stores has increased dramatically. Today, there are roughly 3,500 WD-owned jobbing stores; that's about 12% of all jobber stores. Although some of the WDs may truly be captive or "paper" warehouses (owned by jobbers), an *Automotive Marketing* count turned up 2,017 stores owned by AWDA member warehouses.

The AWDA warehouse store chains range in size from Genuine Parts, Atlanta, which owns some 450 NAPA stores, to Quality Automotive Warehouse in Baltimore, MD, which owns one store.

Although Genuine Parts primarily services about 6,000 independently owned NAPA outlets, company stores play an integral part in Genuine Parts strategy and have done so since the 1920s. Genuine Parts opened 49 company-owned stores last year and expects to continue the trend. According to president Bill Hatcher, the 450 company stores accounted for roughly 25% of Genuine's $1.6 *billion* sales in 1986.

Genuine Parts has no preference for company-owned stores over independent jobbers. "Our philosophy is to be a good supplier to NAPA jobbers," Hatcher said. "I'm not in a position to speak about an industry trend, but we're opening more metro stores. We look where there's no NAPA business, where we have no distribution; mainly in metropolitan areas. Where NAPA already has good stores, we leave them alone. It's a matter of investment—real estate, inventory. For the individual jobber, it's impossible to go in with three-four-five hundred thousand dollars in start-up costs."

On the other hand, president Stanley Bond says Quality Automotive Warehouse owns only one store and doesn't want any more. "I own the store where our business started in 1935," Bond said. "But my real business is my 450 independent accounts. The store services a few dealer accounts. We don't encourage new accounts, we don't encourage walk-in trade. We don't travel any salesmen."

And there's also Charles Scheer, chairman of Prime Automotive Warehouse in Middle Village, NY, who recently acquired nine stores. "I don't know if it's a trend or not," Scheer said, "but I know this: The independent warehouses that are on concrete and progressing are ones that own 8-80 stores. The big get bigger and the small are going to die. My gut feeling is that the only way to go is controlled distribution. You can give independents 7-9% discounts, then all of a sudden somebody gives the jobber 10% and you've lost a customer. So now I'm a retailer," Scheer said, laughing.

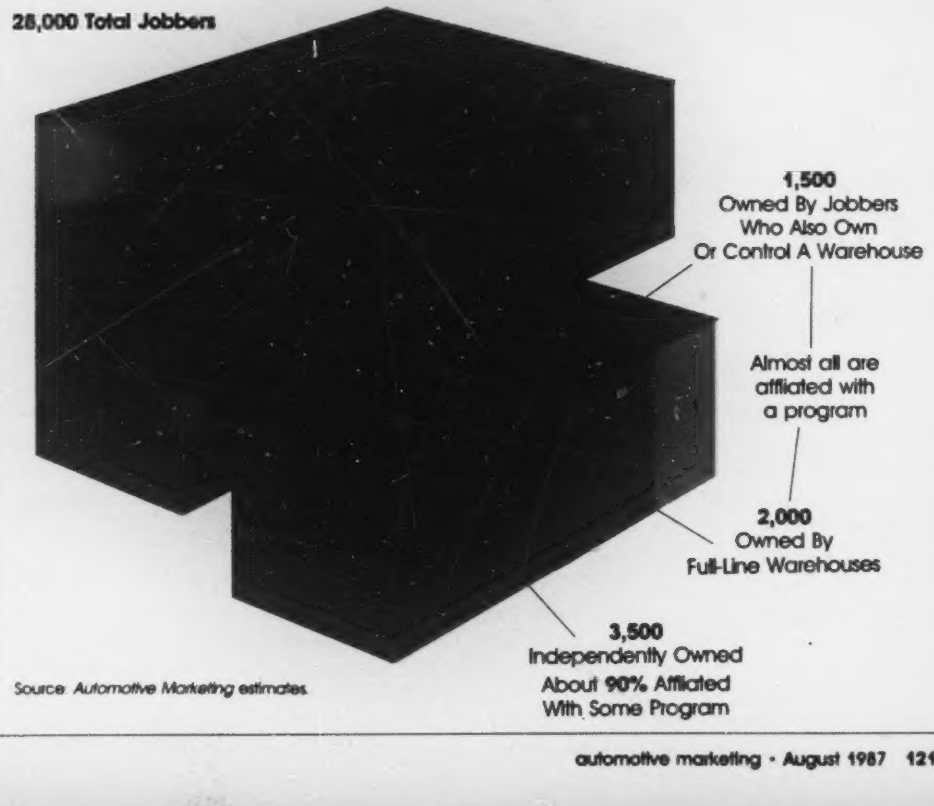
The Reasons Why

Virtually every WD interviewed expects the trend toward store ownership to continue. Selling to independents may be the "cleanest way to operate," as one WD put it, but WDs are in a store-buying mood. The reasons are threefold:

- First, warehouses are selling less to jobbers. The latest Motor and Equipment Manufacturers Association (MEMA) jobber study shows that full-line WDs account for only 61% of the average jobber's dollar volume purchases, a 6% drop since 1983.
- Secondly, while programs such as All-Pro, Bumper to Bumper, Carquest, and others have turned jobber/retailer stores into close copies of retail stores, and retailing now makes up 36% of jobber business, the retail chain stores have expanded their parts offerings and now can offer parts that previously only jobbers sold. The jobber's advantage in SKUs is slowly eroding.
- And, the MEMA study also shows that independent jobber stores are going out of business at the rate of one a day.

All three trends will continue. The increase in mergers, acquisitions, and the growth of programmed distribution, shut out some suppliers from some markets. As a result, suppliers made it easier for large jobbers to buy direct. The MEMA

A LOOK AT THE JOBBERS
Here's how today's jobbers shape up.



Source: *Automotive Marketing* estimates

WD RETAILING

study found jobbers buy 28% of their dollar volume direct. Jobbers are also buying more from discount WDs that offer few or no services but sell fast-moving lines cheaper. Dirk Hoyt of Hi-Lo Consolidated, Houston, (a 73-store AWDA member) suggested, "If WDs don't buy their customers, eventually they're not going to have many people to sell to." Hoyt says this has already occurred in Houston where times are tough. "There're virtually no unaligned stores left. There's a real shakeout. Several warehouses have gone out of business, and several have such bad business they're selling direct to DIYers."

On the retail side, retailers will continue to expand their parts offerings. In the next five years or so, the average retailer will be in the 10,000 SKU range. Last year, *Automotive Marketing* spoke with such firms as the Accel Division of Echlin, a company that previously would not sell retailers. But when the company finally did: "Our sales really exploded." Stories such as this will continue.

There are 21,000 single-store, independent jobbers and quite a few are on the verge of selling out. A Midwestern WD asked, "Where are small jobbers going to get the money to put new numbers in? I'm talking 24,000 new numbers in the next few years. The investment is $25,000 just in fuel injection. You're talking about jobbers whose take-home profit at the end of the year isn't much more than that. Then you have rents doubling in some downtown locations. Without thinking hard, I can name you six jobber failures in the last year. Financial needs alone will make WDs get more involved in controls."

Retailing Requirements

The DIY boom was the reason most WDs got into owning stores. The first phase came with programmed distribution which tied jobbers and warehouses closer together and allowed better pricing and merchandising programs. Now, some 17,000 jobbers are involved with a program to some degree.

To some degree is the operative phrase. Several WDs conceded that at best slightly over half their customers bought 80% or more from them. Even more importantly, the warehouses still lack control of jobber-owned stores. And, while the programs made the jobber competitive in smaller markets, in major cities the jobber was still priced out of the game. For one thing, his pricing was still higher in competitive product lines; but even more importantly, very few entrepreneurs could afford retailing locations. While traditional jobbers could go anywhere and service dealer customers, jobbers who wanted to retail had to go to expensive retail-oriented locations. So, most of the WDs involved in programs took the logical next step and opened owned jobber/retail stores in order to compete. Today, most of the major program groups—NAPA, Big A, Parts Plus—are competitive in metropolitan markets because their member WDs own stores.

Many of the largest and most successful WD store operations are wholly retail such as Hi-Lo and Parts City (31 stores owned by Alexander-Seewald, Atlanta), or primarily retail such as the 82-store O'Reilly/Ozark chain, Springfield, MO; the 87-store Carquest chain owned by Straus-Frank, San Antonio, TX; and the 33-store Taylor Parts chain owned by TPS, Andalusia, AL.

Mike McTeer, advertising manager at O'Reilly/Ozark, said the trend will definitely continue. "It has to. The control factor is so important. Based in a competitive market, unless you have absolute control of the program and the pull through, you're lost. The jobbing industry up to now has been a haven for Ma and Pa. It's so difficult to deal with some of them. They've been doing it their own way for so long. You try and develop and work your program, and a lot of independents don't give it a chance to work. And you just can't march in and say, 'Do it.' In our own stores, if a program isn't working, somebody answers for it. A lot of independents have fallen far behind, and their future is bleak."

There are also fringe benefits to retail operations, as Alexander-Seewald's Jack Alexander III pointed out. "The Parts City Stores complement us very well," Alexander said of the 31-store operation that makes up about 30% of Alexander-Seewald sales. "They allow us to stock retail items that would not have the volume otherwise, and we can offer the retail items to our independent jobber customers." Parts City stores range from 3-12,000 sq. ft. and stock 8-15,000 part numbers, a distinct advantage in competing for the DIY dollar.

Still, there are disadvantages, Alexander said. "If you do one thing well, you may do two things half as well. You're running two programs with the same management. There're equal strengths on both independent and company sides. We're not going to leave our independents in favor of retail. Each side gets better because of the other."

If anything, Alexander said, the independent stores the warehouse services are increasing faster than Parts City stores. "I'd have a hard time deciding whether I'd want ten new company stores or ten new independent customers. Last year we opened three Parts City stores and signed up 22-23 AutoSure jobbers."

But the company-owned stores are necessary in metropolitan areas because of "the inadequacy of 'Ma and Pa' stores to remain competitive in metropolitan areas." Recently, Parts City opened stores in Savannah, GA. Alexander explained, "That's exactly the situation we saw happening. Jobbers in Savannah were closing one by one. The survivors were either NAPA stores or retail chains. The jobber base was not the type business we wanted to build our business on. After we opened our seven Savannah stores, we had four stores join our AutoSure program. They saw our stores and said, 'Maybe I can do that too.' So, the programs complement each other."

The Parts City/AutoSure/Alexander-Seewald operation seems like an ideal way for the WD to go to market in the 1980s. The combination offers something for every kind of customer.

Pluses And Minuses

The key advantage for a warehouse owning stores is control. "You're able to determine marketing, merchandising, and advertising strategies right away," Ozark's McTeer said. "And the business is always there. You don't need salesmen. They can't quit buying off you."

Still, some other WDs are less enthused and more cautious about the prospect of WD-owned stores. Bob McKenna, NAPA president, said, "I think the trend is there. Definitely in some big markets. Our five member warehouses own about 500 stores. But it takes a big investment. And, it's not without problems. It's very difficult to run stores, especially in towns a couple of hundred miles away from where your two or three key managers are based. Our intention is to continue to operate through independents, locally owned and operated jobbers."

And Fred Pisciotta, president of APS, Houston, which owns 116 Big A stores, and supplies some 1,500 Big A jobbers, said, "I know a lot of people think owning stores will be their salvation, but some WDs are going to be surprised. A lot of people who are buying stores have a WD mentality, and they will find problems. They won't know they don't have the skills until it's too late. We run our stores well today; but once we didn't. You're dealing with different classes of trade. Customer service is a different mentality. A WD business is a disciplined way."

Pisciotta's cautions are well taken. The WDs *Automotive Marketing* spoke with all found problems operating stores, although none that were insurmountable.

Running The Stores

"The big problem? You buy a store and

you don't get the people you want to run it," McTeer said. "It takes real money to find and develop these people."

At Motive Parts Warehouse, West Hartford, CT, which owns 23 Acme Auto Parts Stores, Jim Fine noted that store operations are completely different from warehouse operations.

"They are two distinct businesses from a management standpoint," Fine said. "With multiple stores, you need managers. The jobbing business is a seven day business. The warehouse can close on Saturday and Sunday. Cash controls. There's none in the warehouse; jobber stores have problems. You deliver by orders from the warehouse. Jobbers have to hot-shot deliver and that's costly. In the warehouse if business falls off, you can more easily adjust your overhead. But the jobber can't. There's only four people or so, and the same number of hours to work. It's a double-edged sword. We can do business with just three people in the warehouse: a director of purchasing, a sales manager, and an operations manager. Stores need regional managers and store managers, and assistants. Plus your countermen have to be very good to deal with DIYers and dealers. From a management point of view, the warehouse is much easier to run."

Add to this the comment of Jack Alexander who noted that his advertising staff has to be careful when running ads to make sure the right products appear in the right set of ads. For example, the retail stores stock Fram filters while the AutoSure stores stock Wix.

And Mike Kirkham, president of KAPS Automotive Warehouse, Blackfoot, ID, which owns 25 Kirkham Auto Stores, noted that the advantages can equal the disadvantages. "You have a base you can control. You get input from the jobber's point of view on the consumer level. You see the market situation through the eyes of the jobber. But you have more people, and more to worry about. It's like taking your warehouse inventory, scattering it across the state of Idaho, and trying to manage it."

Speaking of inventory, a Midwestern WD hired good retail people and "more or less, left them on their own. I told them to buy what looked good in the front of the store." Now, he's applying a strict weeding out process to owned-store inventory lately. "I lost a little control. I allowed my managers too much authority."

Friction

Along with management challenges, the WD with stores also has a conflict with his independent customers that does not lend itself to easy resolution. "There's always a tendency for the independent jobber to feel you're favoring your own stores," Kirkham said. "We make a profit center of our chain so it has to compete like any other jobber. Sure, we favor some stores. As they support us, we support them. You do these things for me; I'll do these things for you."

WDs have to bend over backward to assure independent customers their own stores are paying the same price for goods. As McTeer said, "Many times independents feel you're giving concessions to your stores. You don't care about us. When you're growing rapidly, it's a delicate balance. You never convince everybody. There're always a couple of jobbers who feel they're not getting the best deal."

The conflict can be a sticky one and most WDs prefer not to discuss it. "Sure we talk about it a lot with our customers. They don't like the idea of my owning stores. I have a lot of answers for them. Which one do you want?" said one wryly.

By and large, retail operations such as Alexander-Seewald's Parts City cause the least controversy. It's strictly a retail operation and thus not a competitor for traditional jobber customers. But for the WD with stores that are more dealer oriented, and often competing for the jobber's traditional customers, there can be more serious conflicts.

Selling Direct

Many jobbers feel and fear more warehouses will soon sell direct to dealers and installers. One recent jobber study found 51% reporting that WDs sold direct to dealers. One WD noted that "a lot of people are paying lip service to the traditional industry. They're telling people all the right things. Then they turn around and sell direct."

One WD candidly admitted that he owned one store simply to sell to large installers at jobber price. "I've got a couple of dozen jobbers who are too costly to service. I've got to have a thousand a week from a jobber or forget it. If I can lock in a few large service dealers by selling at jobber price, why not?"

To counter this kind of feeling, NAPA's McKenna stressed that NAPA's recent move to service the Montgomery Ward stores was done through NAPA jobbers rather than direct from NAPA distributors. There are 292 Ward stores, and each has its NAPA jobber selling it at Master Installer prices. The jobber deals with the store as just another account. "It's a hell of a deal for our jobbers," McKenna said. "One jobber per store. Whichever is closer. The jobber gets all the profit out of it. And all but 40 or so are independent jobbers."

Still, the extra 22-23% price break the WD can offer dealer/installer customers by selling direct can make the difference in selling the specialist. At least one WD said the only way he could sell the local fast lubes was direct. "The jobber can't sell them because of price. He can only sell them on an installer program and that's too high. The warehouse has to sell him and rebate the jobber." Ironically, this WD feels the first WD to sell direct in any area is usually the WD who lacks any controlled distribution.

Although jobbers still don't like the idea of WDs running stores, most WDs have made efforts to avoid direct competition, opening stores only where they have no distribution. However, the idea of WDs selling direct infuriates jobbers. In fact, A group of Florida jobbers is suing five Florida WDs for selling direct. Mike Boyle, a Tampa jobber, said that 80 Florida jobbers closed in 1986 and his store is suffering. "We have WDs going out and openly soliciting our customers," Boyle told me. "They're selling them at jobber price. The FTC is very clear. If there's a price difference, it must be justified. You can't arbitrarily eliminate functions to give better prices." The suit has just finished the discovery process, and Boyle expects to go to trial by Fall.

What Does It Mean?

The concept of warehouse-owned stores is firmly in place. Half a dozen WDs used the same phrase, "I want to control my destiny." In the long run, the result of warehouses owning or controlling stores will be a traditional market that looks more like the retail market. Owned stores can compete for the retail dollar as Parts City, Hi-Lo, and O'Reilly have shown; and, they can do a better job of selling the dealer/installer market as the large programs have shown.

And what about the independent? The independent jobber is caught between the retail chain controlling the retail market and the controlled jobber doing a better job of serving the dealer/installer market. Hi-Lo's Hoyt said, "The jobber store of the future is reverting to the jobber of the 1960s. It's not so much a case of dwindling DIY sales, but the jobber just can't compete profitably. But the jobber can go for the installer. The installer and the dealer don't care about price. They want the right part and the right service."

Hoyt seems on target. All the major programs have announced programs to help dealer sales. If the programs can do a better job of selling the dealer/installer for their controlled or owned stores, and continue to get a fair share of retail business, the independent jobber is in for very hard times. ■

FLEXIBLE BENEFITS

BENEFIT YOUR BOTTOM LINE

Perhaps it's time to change the insurance package you offer your employees to one that better meets their needs—and one that will save you money.

by **Gail Krueger-Nicholson,**
Senior Editor

Traditional benefits packages are getting the gold watch. These workhorses of corporate life are slowly being forced into early retirement to make way for flexible benefits packages that more exactly meet the needs of today's employers and employees. Aftermarket firms should be ready to take advantage of these plans.

Flexible benefit plans, sometimes called cafeteria plans, allow workers to pick and choose among of benefits. Large companies typically sponsor plans that include medical insurance with a range of deductibles from $100 up to $1,000, dental plans, optical plans, life insurance with varying values, long term disability, and company sponsored cash or retirement accounts, also known as 401(K) accounts.

Some programs also offer health maintenance organizatons (HMOs) as alternatives to medical insurance. Many plans allow employees to set aside pre-tax cash from their salaries to pay for benefits that are not usually covered by health insurance plans, such as contact lenses, cosmetic surgery or child or elder care.

Small firms such as aftermarket retailers with anywhere from 50 to 1,000 employees, can now sponsor scaled-down versions of these plans as well.

These flexible benefit plans are gaining popularity. Towers, Perrin, Foster & Crosby, a New York-based consulting firm, predicts that among companies with more than 1,000 employees, the number with flexible plans will more than double in the next two years.

The American Management Society (AMS) published a flexible benefits survey in March of this year. AMS spoke to 309 large, medium, and small companies in the U.S and Canada. Some 20% of the companies they spoke to had a flexible benefit plan. Only 17% did so in 1986. Another 48% of the companies surveyed had employee assistance programs (EAPs) and 47% had a wellness program. Childcare programs were offered by 6% of the company survyed by AMS. See our sidebar story for a definition of these benefit programs.

Not A New Idea

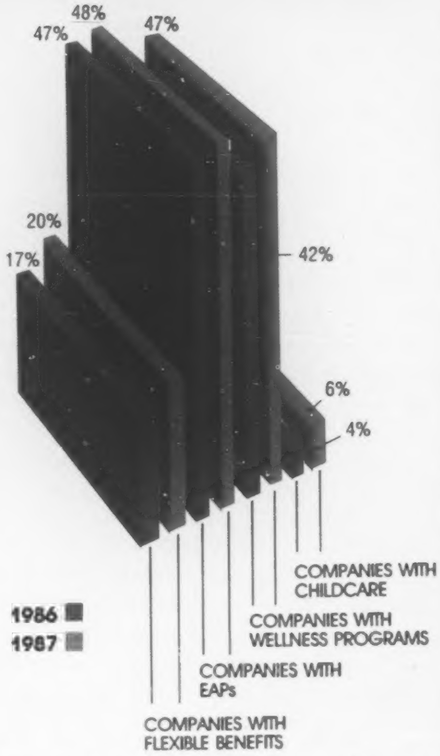
Flexible benefits plans have been around for a decade, but compensation specialists predict the popularity of flexible plans will to take off soon for at least four reasons.

- First, large and small employers seek ways to control the skyrocketing costs of health care and life insurance. Flexible plans let them manage those costs.
- Second, employees seek benefits that match their lifestyle and economic needs. The one-size-fits-all benefits packages of the past, designed around the traditional male breadwinner's needs, no longer meet those needs. Flexible plans do.
- Third, recently developed computer software puts the management of flexible plans within the reach of almost any firm with a pc.
- And finally, the revised tax legislation leaves such benefits packages, and their attendant 401(k) accounts almost unchanged, according to experts at the national accounting firm of Touche Ross. Many firms waited to jump on the flexible plan bandwagon until the implications of tax reform became clear.

Controlling Costs

Controlling health care costs is critical to aftermarket companies. A recent Harvard Business School study noted that from 1982 to 1983, health care costs for the Fortune 500 industrial companies and 250 of the largest non-industrial firms equaled almost one quarter of their after tax profits. If rising costs go unchecked, the study concluded, health care expenditures will wipe out corporate profits by 1991. The effect could be even more drastic on the small and mid-sized companies that make up the aftermarket.

A flexible benefits plan allows employees X dollars to buy items from a benefits "menu" instead of giving employees a set package of benefits. If health care costs soar, the employee—not the employer—



Source: 1987 Administrative Management Society

FLEXIBLE BENEFITS

[illegible]

Flexible or cafeteria benefits plans give employees the option of selecting their benefits from a "menu" of choices in accordance with their individual needs. The plans also give employers the ability to pass types of health care cost increases on to their employees.

Employee assistance programs (EAPs) offer troubled employees a variety of outside counseling services. Most companies pick up all or part of the tab for such services. The types of counseling frequently include: alcohol/drug abuse counseling and emotional/stress counseling.

Wellness programs include some type of health, physical fitness, or recreational program designed to improve employee health by preventing illness and stressing physical fitness. Such programs include athletic teams, weight reduction, and stop smoking programs.

Dependent care programs are usually referral services for off-workplace centers for child or elder dependent care. Employees usually pay all the costs.

[illegible]

The following benefits are the most prevalent in flexible plans. They are ranked in order of employee favor.

Benefit	Rank
Medical Coverage	[illegible]
Life Insurance	[illegible]
Dental Care	[illegible]
Long-term Disability	[illegible]
401(K) Plan	[illegible]
Dependent Care	[illegible]
Vacations	[illegible]
Short-term Disability	[illegible]

Source: 1987 American Management Society survey

EAP CHOICES

The following are the types of counseling most prevalent in employee assistance programs (EAPs) ranked in order of employee favor.

Benefit	Rank
Alcohol/Drug Abuse Counseling	[illegible]
Pre-Retirement Counseling	[illegible]
Emotional/Stress Counseling	[illegible]
Termination Counseling	[illegible]
Career Counseling	[illegible]
Marital Counseling	[illegible]
Financial Counseling	[illegible]
Legal Counseling	[illegible]

Source: 1987 American Management Society survey

WELLNESS CHOICES

The following are the most prevalent types of wellness programs ranked in order of employee favor.

Benefit	Rank
Athletic Teams	[illegible]
Physical Fitness/Exercise Programs	[illegible]
Stop Smoking Programs	[illegible]
Diet/Weight Control Programs	[illegible]
Recreational (other than athletic)	[illegible]

decides whether to pay more of the costs or to take less coverage. Employee participants, not the company, swallow the largest part of any future premium increases. This makes employees aware that benefits are a form of compensation, like wages. However, the employees at least have the final say on how to divide up and spend their benefits dollars.

In this way, flexible benefit plans, in contrast to traditional benefit plans, are a proven health care cost management tool for employers. A mid-1985 survey by Hewitt Associates, a New York-based compensation consulting firm, showed that of 120 employers with flex plans in place, 24 had performed their own financial analysis of flex plan costs. Of those, 21 said their flex program either reduced or limited benefits costs increases.

The Changing Workforce

As the workforce changes, benefits packages need to change, too. The traditional male breadwinner, the sole support of his family, is no longer the dominant worker. He is now joined by working women. Some of these women pull down salaries equal to or greater than their male partners and some are the sole support of their own households. In fact, some insurance companies, Aetna Life Insurance Co., Hartford, CT, among them, believe that the traditional benefits plans geared to the male breadwinner family now suit only 15% to 20% of the nation's workforce.

Not surprisingly then, a survey of employees conducted by the Philadelphia office of the accounting firm Peat Marwick found that no uniform benefits plan is likely to satisfy more than 20% of any employee population. According to their survey, uniform benefits plans are unlikely to meet employee needs or preferences because choice was the most important factor in employee statisfaction with benefits programs.

The Computer Connection

Companies with under 1,000 employees can now offer these popular cafeteria style benefits, an option that was once only available to the "Big Boys." More than a dozen major insurance companies, as well as consulting firms and brokers, now market flex programs tailored to small companies.

Insurance companies have long sensed a big market for these plans among small companies. But small firms generally lacked the financial and personnel resources needed to manage such programs. And the insurance industry lacked the technology to create a cost effective system for pricing and administering a small company flex plan.

The picture changed in 1985 with the introduction of several comprehensive software programs that work with desktop computers at employer sites. Several insurance companies—including Aetna, Prudential, and Unionmutual—now market such systems to small firms.

The insurance companies explain the program to employees, enroll them, and administer the record keeping, claims processing, and accounting. The cost of purchasing and installing a turnkey system varies. Aetna estimates it costs from $25,000 to $50,000 for a firm with about 1,000 employees. The Aetna system works on IBM personal computers and links up with the main frame at Aetna.

Small companies can launch a flex plan for as little as $12,000 by leasing software systems from some insurance companies at monthly rates ranging from 85 cents to $2 per employee.

Lucky Tax Break

The revised tax legislation held the line on flexible benefits programs. There have been no few changes to these programs under the new law. All the rules covering flexible benefits plans are still in place, including the provisions that allow employers to establish 401(K) accounts for their employees.

But that doesn't mean you should rush to put a flexible plan in place. These are complicated plans and should be handled by professionals.

Overall, it is too early to assess the effectiveness of flex programs for small companies. The market is so new the even Unionmutual Insurance Co., the pioneer in offering flexible packages to small business, has managed to sell only 200 or so of its special small business programs. But flexible benefits packages are the wave of the future. ■

SERVICE MARKET REPORT

MACHINES DO NOT MAKE YOU MONEY, TUNE-UPS DO

Diagnostic wonder machines do not replace the tune-up when it comes to making money in your service bay. Here's why.

by **David A. Evans,** Contributing Editor

Offering serious diagnostic capability is *hard* money. Not easy money. The easy money, it seems, is in the never-to-die concept of the "tune-up."

The "tune-up?"

I admit, with sheepish reluctance, I was one of the earliest proponents of the "death of the traditional tune-up." Fortunately, I had lots of company, with lots of other trade writers, manufacturers, futurists, and experts of the service ilk predicting the rapid and final death of the "tune-up."

Boy, were we wrong!

I was at an Equipment & Tool Institute gathering where one savvy old timer in our business said, "If the tune-up is going to die, isn't there something which can replace it? It seems a shame to lose a concept which has worked so well, for so many years."

If I had been really good at fortune telling, I would've told him, "Don't worry. It is the desire of the motoring public, and the power of the media, which will keep the tune-up alive. You and I have no power to stop it."

David A. Evans has participated in the aftermarket for over 25 years. He has worked as a line mechanic in a dealership, has owned a chassis shop, and has owned an 18-bay general service facility. His technical, sales, and management training material are in use by a variety of well-known automotive manufacturers. Dave would be happy to take your questions or comments, and can be reached at (312) 394-5349. We would also appreciate your comments.

What Is A Tune-Up?

A tune-up is what the vehicle owner wants it to be, and perceives it to be. And in many cases, the vehicle owner wants and perceives what *the media* tells him he should want and perceive. In fact, if anyone needs evidence that advertising *can* create wants and needs which didn't heretofore exist—if anyone wants to prove advertising is a diabolical plot—tune-ups might be the ideal example.

Automotive Marketing's Contributing Editor Edward L. Kaufman, of the marketing consulting firm of Lindsey-Kaufman Co., Tenafly, NJ, has been quoted as saying "The future of the automotive service business will belong mostly to those retailers who attain media dominance." And the concept of tune-up proves him right.

To do a tune-up on your customer's vehicle, you typically do the following:

- Replace the plugs.
- Replace the air filter.
- Replace the fuel filter.
- Check, and replace if necessary, any faulty plug wires, the cap, the rotor, the points and condenser.
- Adjust the ignition timing, if required.
- Set the engine idle speed, if required.
- Adjust the engine idle mixture, if possible and required.

This is a far cry from the traditional mandatory replacement of the plugs, points, condenser, cap, rotor, plug wires, air filter, fuel filter, PCV valve, breather filter, and the cleaning and adjusting of the carburetor, including setting the float level, idle mixture and accelerator pump setting, plus setting the engine timing.

These mandatory requirements are no longer mandatory. Why? Because *only* the plugs, air filter and fuel filter truly have a measurable, finite service life. And you can read the life expectancy in any vehicle owners' manual.

The new order of battle says, "If it ain't broke, don't fix it. And if it is broke, fix only what's required."

The Opportunity Is At Hand

In order to do the above work specified for the modern vehicle, you need to have a few more tools than the average DIYer. While doing exactly what you promise in terms of a tune-up is *all* you need to do—and *all* you need to guarantee—if the vehicle still runs like garbage after you do the job, you *do* have to tell the customer *why* it runs like garbage. This means you need an engine diagnostic computer with four gas analysis capability and a printout device.

You may, as the tune-up franchises do, elect to send the customer down the road to the dealer, or some other vendor, to get the total fix. But you still are required to say why you are not doing the work.

Also, just because you offer a simple tune-up which is similar to tune-ups offered by other vendors in the marketplace (and that *is* your standard—there is no sense flying in the face of a standard established through the media and customer assent), it doesn't mean you can't replace all of the expensive and profitable EGR valves, gaskets, carburetors and fuel injectors which your scope does show as bad.

But you must start with the tune-up. Not the diagnostic routine. (I'll tell you why later.) And the tune-up must be understandable to the customer, and priced competitively.

After you get the vehicle into the bay—and it *is* the media which does the trick—what you do, and what you bill, is completely up to your training, personnel, and your sales objectives.

Why Diagnostic Work Is Hard Money

As I said, serious diagnostic capability is *hard* money. And here's why.

SERVICE MARKET REPORT

From time to time, the idea of using a diagnostic drive-through lane as a means of boosting parts sales is advanced by one writer/manufacturer/magazine or another. But it never seems to get off the ground. One store might do it—for a while. But if the idea is to:

- Provide an "independent" source of information regarding what needs to be fixed/replaced on the vehicle,
- Do a detailed and thorough work-up so *everything* can be purchased and fixed at one time,
- Provide printed evidence the customer can use during a parts shopping spree,
- Give the customer the ability to run the vehicle through the diagnostic facility a second time to verify repairs,
- Do the above diagnostics at reasonable and promotional pricing,

then the idea just doesn't fly. It is a hard way to make money. While it seems to reasonable on the face of it, there is a lot *wrong* with this idea. Let's take the items, in order.

- Independent Source

Clearly, the computerized diagnostic console is not independent. It is dependent upon the ability of the attending technician to interpret and qualify the results of the computer test.

As such, the technician can be right—and wrong. No one gets it right all of the time. Indeed, there are all sorts of pitfalls in the vehicle, the computer, the program, and the sensors all destined to make the computer and technician wrong, too often. As such, the promise of "once and for all" cannot be kept.

The independence of the source is also hard to prove when the machine is in your shop, and your shop will make the repairs and charge the fee.

- Everything Purchased At One Time

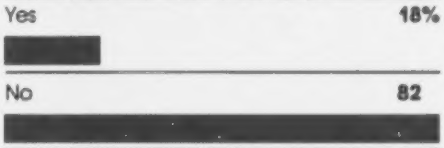
Every average DIYer *I* know spreads out his repairs. Whether he lacks the time or money to do them all at once is not relevant. But, he does elect to spread his work load out.

As such, he has to decide which of the repairs to do at which time. In doing so, he cuts down on the ticket value, thus apparently diminishing the promotional value of the diagnostic work-up.

On today's vehicles, we need to remember, the typical parts store (full line jobber, full line automotive chain, or specialist store) does not, will not, cannot, carry all of the parts required for many (make that *most*) repairs. This, too, negates the effectiveness of the complete parts order for the one session job.

DIAGNOSTIC PROMOTION

We asked our Retail Panel: "Have you ever done a drive-through diagnostic promotion?"



Source: 1987 *AM* Retail Pannel

- Printed Proof

This is great. No problems here.

- Repeat To Verify

You'll do this once. Maybe twice. Then never again! It takes between 20 and 45 minutes to do a complete diagnostic test sequence. No one can afford this—neither the store nor the customer.

Plus, there is a nasty trap here: the computer might show something *additional* is wrong, the second time through. And, the wonder machine may show additional work the third, fourth, and possibly each additional time the vehicle goes through the lane.

This recursive nature of the test process can lead to a vehicle which is *never* repaired completely. All good shops learn to avoid this trap by *not* re-testing to verify the work.

- Promotional Pricing

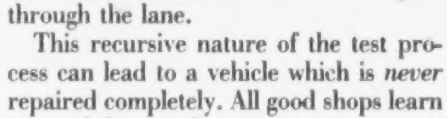
What everyone who has done the test lane bit seems to have learned is this: people are not anxious to pay to learn what is wrong with their vehicles. Telling someone you'll tell them everything they need to fix is simply not productive. After the first rush of enthusiastic vehicle nuts, the run of customers trickles off to almost nothing.

Diagnosing History

In the mists of time past (about 1954), a visionary car dealer in Chicago by the name of Zollie Frank installed a large drive-through diagnostic test facility in his Chevrolet dealership in Chicago. For $10 back then (Remember, this was more than three decades ago.), you could take your car through this total inspection, dynamometer-and-analyzer operation, and "learn all of the things wrong with the car."

INSPECTION SERVICE

We asked our Retail Panel: "Do you offer a special checkup/inspection service?"



Source: 1987 *AM* Retail Pannel

This diagnostic test lane, called "Electrac," operated until just this year. The building was recently torn down.

At the time "Z Frank" installed Electrac, it was considered something of a sensation in the automotive marketplace. This state-of-the-art dyno/test facility was viewed by every automotive freak in Chicago—and probably the rest of the Midwest—as a mecca for repair. Pundits in the consumer and trade press designated it "the wave of the future," and predicted similar fee-for-service, drive-through lanes around the country.

The next time I heard about such a diagnostic drive through facility, it was also in Chicago—about 1977. A large repair facility had installed the first *computerized* diagnostic hardware and was using the gimmick of having a young lady hook up the vehicle, run the test procedure, and hand the customer the printout.

This test cost $30, as I remember. The drive through facility and its sponsoring garage are not in business today. Some years later (about 1979), I had a chance to learn about a "drive-through" diagnostic bay which was operated by a New Jersey jobber.

This drive-through facility was reputed to have boosted parts sales at its connected jobbing store considerably.

At that time, it was easy for the non-distribution observers of the automotive trade to predict a rash of similar drive through diagnostic facilities. However, it certainly was *not* followed by countless other such facilities, and is not in business for that purpose, today, as far as I can determine.

The truth is that these diagnostic facilities aren't all that profitable. Even if you had a big enough market area, you could not keep up the customer flow. Again, you are faced with the problem of not being able to diagnose everything wrong with the vehicle—or of being able to pinpoint enough to allow easy sale of lots of merchandise.

Tune-ups can do it all for you. ■

THE AFTERMARKET GETS MORE COMPLEX

Globalization means that the world is not only smaller, it's also more complex. The trend affects every aspect of the aftermarket. Here's an overview.

by **Edward L. Kaufman,**
Contributing Editor

Remember the good old simple days? The days when 95% of cars bought by Americans were produced by American carmakers in U.S. and Canadian plants? And when all components used to produce those vehicles were also produced in domestic plants?

Today, the vehicle market in the U.S. is a mish-mash of cars. Some are domestics produced in North American plants, some are direct imports produced overseas, some are transplants made in U.S plants by foreign manufacturers, some are captive imports made offshore and sold by domestic manufacturers, and still others are joint venture products such as the Chevy Nova.

This change was brought about by globalization, the expansion of markets from national ones to those which extend beyond countries' borders.

Only modest growth in new car sales overall is predicted between 1985 and 1990. For this reason, the market share losses of domestic producers are especially painful. Sales of domestic cars are expected to decline from 68% to 56% of the total in 1989, according to projections by International Strategy Consultants. The proportion of domestic parts is likely to drop even more. Domestic manufacturers incorporate substantial quantities of foreign-made parts and sub-systems into the vehicles assembled in North American plants. In contrast, foreign vehicle makers – particularly the Japanese – buy relatively few American-made parts for their vehicles, either overseas or here. This is a sore point for domestic parts manufacturers, their trade associations like the Automotive Parts & Accessories Association (APAA) and the Motor Equipment Manufacturers Association (MEMA), and the U.S. government.

The APAA sees domestic parts dropping from 70% of production in 1980 to 61% in 1985, and possibly as low as 41% in 1989. The big gainers? Likely to be Japanese auto parts producers.

Still A Significant Exporter

Largely because of shipments to places like Canada, Mexico and Saudi Arabia, the United States is still a significant exporter of motor vehicle parts and accessories. In 1982, the United States had a favorable worldwide trade balance on parts and accessories, despite the fact that the U.S. imported $1.7 billion *more* in parts and accessories from Japan than that country sourced from us.

Since then, U.S. exports of parts and accessories have risen modestly – but our imports of these items from Japan have more than tripled – rising from $1.8 billion in 1982 to $6.0 billion in 1986! Our world wide trade deficit on parts and accessories approached $10.4 billion in 1986: more than half of that was our negative trade balance with Japan. Our $6 billion deficit on parts and accessories trade with Japan includes $2.2 billion in Foreign Trade Zone (FTZ) subzone imports. The latter are imports which are not subject to duty if they are used in assembling products in the United States.

Not An Exclusive Automotive Problem

In industry after industry, not only the automotive industry, the U.S. is no longer the dominant producing nation but the largest single market in the world, and the target for all world class producers. This country's annual trade deficit is approaching $180 billion. Our annual balance of trade deficit with Japan alone is close to $60 billion; motor vehicles and parts represent about 40% of that.

What should we do? Erect high tariff walls? Lots of Americans wouldn't like the results of that action. This include consumers who feel entitled to the best values obtainable on the world market; American business owners and employees who are engaged in importing and marketing foreign-made vehicles, parts and accessories; American vehicles and parts makers who import lines and items to lower their average costs; and finally, our financial institutions. Wall Street believes that protectionism would hurt world trade and lead to a 1930s style world depression.

Active And Passive Tactics

What is the U.S. doing about this problem? Passively, it has been allowing the dollar to fall. This discourages imports by making them more expensive (not a happy solution for the employees at companies like Worldparts and Hollywood Ac-

Domestic	U.S.-based manufacturer, produced in the U.S.
Direct Import	Foreign-based manufacturer, produced off-shore
Captive Import	Assembled off-shore by either a foreign-based manufacturer and/or a U.S.-based manufacturer and imported for sale under a U.S. nameplate (e.g., GM Sprint)
Transplant	Assembled in the U.S. by a foreign-based manufacturer (e.g., American Honda)
Joint Venture/Hybrid	U.S./foreign joint venture, produced in the U.S. (e.g., NUMMI Nova)
Invisible Import	Growing use of foreign auto parts in domesticly produced vehicles

THE AFTERMARKET GETS MORE COMPLEX

Domestic	7,480	68%	6,444	56%
Direct Import	2,860	26	2,645	23
Transplant	330	3	1,035	9
Captive	220	2	1,035	9
Joint Venture	110	1	345	3

cessories which import product!), and it encourages foreign producers to do more assembly and manufacturing here.

And, actively, the country is becoming more cost effective. This involves closing inefficient, older plants, and moving production to smaller, more efficient plants. In the process, American manufacturers also are negotiating more realistic labor rates and work rules.

American manufacturers are also borrowing – or buying – the best ideas of their foreign competitors. Fair enough: foreign producers are frank enough to admit that they got many of their ideas from us. Buying ideas involves joint ventures and licensing. For example, GM obtained ideas for better management of assembly plants from its NUMMI joint venture which produces Chevy Novas with Toyota. More recently, GM's Delco Moraine Division entered a joint venture with Japan's Akebono company to product brake system components here.

Outsourcing: One Pragmatic Approach

American manufacturers also source cars and parts from overseas to become more cost effective. Like licenses and joint ventures, this is a pragmatic approach. American manufacturers of vehicles and parts are saying, in effect, "If their product for this niche market is better designed and of higher quality than ours, let's sell theirs until we learn to improve ours." Thus, GM, Ford, and Chrysler import car lines as well as numerous components for their made-in-North-America cars and trucks. It's said that a key factor in lowering Chrysler's breakeven point is outsourcing.

Foreign parts sourcing is an increasingly important fact of life for domestic parts manufacturers. They began by sourcing items to cover import car lines. Today, they also import substantial quantities of parts for domestic applications.

To some manufacturers, the idea of sourcing foreign parts is a bit like the concept of homeopathic medicine: a little of what hurts you may help you. Suffer from allergies? Try Essence of Ragweed. Sourcing foreign parts can become addictive and lead to excess dependency, though. Manufacturers can wind up shutting down plants and becoming importer-distributors, vulnerable to dollar value declines. Then, what do they do when imports become too costly? It's hard to shift back to domestic production if you have sold your domestic plants.

Another problem complicating the offshore sourcing issue is that large volume customers are inclined to think they can source for themselves. Some chain stores seem to think that globalization means sending buyers to Taiwan. However, there are limits to the items retailers can safely import on their own.

Some larger chains import directly, but most do not. The considerable hazards outweigh the cost savings of container loads of merchandise. Hazards include availability questions (can the foreign supplier deliver as promised?), long lead times between order and delivery, lack of effective guarantees on product quality and service, and currency fluctuations which change the cost of merchandise between order and delivery.

Reliability of supply is a major factor. Sophisticated retailers appear to prefer to source most imported goods from established firms like Worldparts, Rally, Hollywood Accessories, and Allison which can maintain domestic inventories and provide assurance of delivery.

An American Approach: Talking

Finally, as a nation, the Americans are "jaw boning," putting pressure on foreign producers, particularly the Japanese, to give American manufacturers a fair shot at supplying at least some components they use in products they sell in the U.S. Trade associations such as the APAA and the MEMA have aided efforts of our U.S. international trade negotiators to get the Japanese to open up, and help the trade deficit problem. The sixth round of the Market Oriented Sector Specific (MOSS) talks was held early this summer. Automotive parts have been included as a topic in the MOSS discussions between the U.S. government and the Japanese government as the two work to effect better trade relations.

Selling To Japan

Can American manufacturers really obtain business from Japan? Some have. Both IBM, already a major factor in Japan's computer business, and Allied-Signal's AiResearch, a turbocharger supplier, have succeeded on the basis of expertise and technology. If the Japanese need it, and can't buy it at home, they are willing to deal with foreigners.

But, on items available from Japanese sources, the going is tough. The Japanese government has eased somewhat on tariffs and non-tariff restrictions (remember when American-made baseball bats were excluded for failure to meet "safety standards"?). But some Americans say they can meet specifications, delivery requirements, and pricing yet still are passed up in favor of the Japanese manufacturers' traditional suppliers.

The Japanese system of automotive suppliers and sub-suppliers is very structured. At the top are the assembler corporations like Toyota, Nissan, and Honda. Below them is a small number of manufacturers supplying major components and systems. Relations at these levels are particularly close. For example, Toyota and Nippondenso own each other's stock and have interlocking boards of directors. The major component suppliers have their own vassals, smaller suppliers of parts and sub-systems. They, in turn, are supplied by still smaller companies, virtually cottage industries.

From the Japanese point of view, it is not enough to meet price and performance specifications. Their suppliers, regarded as team members, must demonstrate flexibility, sensitivity to customer interests, and a willingness to go all out to meet schedules. They may expend years of patient effort to make the team. It is not an easy system to enter, and not an easy system to be part of. Japanese parts suppliers work on very small margins. Because the Japanese vehicle manufacturers compete with each other ferociously, they constantly press suppliers to reduce prices. John Peters, the U.S. commercial attache posted in Osaka, expects these pressures to lead to a battle for survival among Japanese parts producers.

American parts suppliers are under similar pressures. These will intensify as Japanese parts suppliers set up shop in the United States. Clearly, only the fittest will survive.

On the positive side, we are likely to see a trend toward joint ventures between strong North American and Japanese suppliers. For the Japanese, such ventures can help overcome fears about excessive foreign investment in the United States and facilitate sales to the American OEM. For the Americans, such ventures can facilitate sales of American parts to the Japanese OEM.

Globalization's Opportunity Side

One opportunity resulting from the

THE AFTERMARKET GETS MORE COMPLEX

Total Exports	$10,641,747	$11,045,080	$13,836,159	$14,270,471	$13,039,040
Total Imports	$9,112,226	$12,597,206	$16,980,573	$21,147,124*	$23,400,940*
Trade Balance	$1,529,519	-$1,552,126	-$3,144,414	-$6,876,653**	$10,361,900**

Exports To Japan	$127,847	$148,386	$179,205	$191,000	$203,400
Imports From Japan	$1,822,344	$2,112,954	$2,939,927	$5,200,000*	$6,038,500*
Trade Balance	-$1,694,497	-$1,964,568	-$2,760,722	-$5,009,000**	-$5,835,100**

globalization of the automotive OEM is the potential for world class producers to supply vehicle manufacturers around the world. This applies to U.S.- based parts suppliers, and to European-based manufacturers such as Robert Bosch, SKF, Lucas, and GKN, and to Japanese manufacturers such as Nippondenso and Akebono. Companies like TRW, Dana, and Echlin are well established in serving the European OEM from bases in Europe. Tenneco has bases in Europe and Latin American and has been successful in cracking the Japanese OEM. Champion Spark Plug Co. has supplied the international OEM for years.

Another big opportunity is the U.S. aftermarket for foreign-make cars and light trucks. Considering the possibility that domestic production may account for only 56% of new car sales in the United States in 1989, serving the import car aftermarket is more than an opportunity for U.S.-based manufacturers, marketers and retailers: it represents survival!

A 1984 APAA study, "The Dynamics of the Import Aftermarket," forecast retail sales of parts and accessories for import vehicles rising from $10.5 billion in 1984 to $17 billion in 1989, a growth rate of 10% per year. The study also noted that 70% of all import vehicles were between two and ten years old, the prime age group for aftermarket sales; that import vehicle population had increased in every state since 1980; and that nearly three-quarters of import cars and light trucks in this country were Japanese.

An Influx Of Foreign Investment

Opportunity is also a positive way of describing the increasing presence of foreigners in our domestic economy. They come here to facilitate the flow of exports from their overseas plants to this country, and wind up making considerable investments here. A good example is GKN. That multi-billion dollar British company, a worldwide manufacturer of automotive components, came here initially to develop sales to the OEM and aftermarket of its constant velocity joints. Not long afterward it acquired Parts Industries Inc., which owned importer-distributor Worldparts. Later it bought importer-distributor Beck/Arnley, and two specialty service franchisors, Meineke Discount Mufflers and Sparks Tune-Up Centers.

Foreign-owned parts producers and distributors such as GKN, Bosch, Lucas, SKF, BASF Corp., and AI International have invested heavily in the U.S. economy; collectively, they employ many thousands of Americans in manufacturing, distribution, and customer service capacities. Foreign car makers like Volkswagen, Honda, Toyota, and Nissan have made tremendous investments in assembly plants in the United States.

These carmakers employ thousands of American workers, and they may buy substantial quantities of parts and accessories from American manufacturers. But if more foreign parts suppliers build manufacturing plants here, what will be the long term effect on our economy?

The APAA is one organization which is not ambivalent about direct foreign investment in assembly plants. Its position on this question is definitely fearful. Linda Hoffman, APAA's vice president of government affairs and international trade, estimates that three American-owned plant jobs are lost for every one created by the Japanese-owned plants due to the plants' function of assembling rather than manufacturing cars.

"Japanese car assemblers here using only 25% U.S. parts are displacing U.S. owned car manufacturing plants that use 90% parts made in America. These screwdriver operations, as we sometimes call them, permit the Japanese to keep their profits and their best jobs at home."

So, the APAA is less than enthusiastic, to say the least, about state and local governments which trip over themselves as they attempt to lure foreign assembly plants to their cornfields. APAA says this may be good for individual towns like Flat Rock, MI, but not necessarily good for the entire country since the United States is *not* a growth market for automobiles. The excess capacity of the carmaking plants means "a lot of companies, both car companies and the parts companies that supply them, are going to be pushed to the wall. A lot of parts companies will be pushed *through* the wall. And with them will go jobs, lots of them."

Going Abroad As OEM Suppliers

You may recall that the 1960s was a time when American parts producers, like TRW, Dana, and Echlin, bought up or into automotive parts plants in Europe, Latin America and Asia.

Consultant John Schnapp, a partner in Temple, Barker and Sloan, Lexington, MA, provides some perspective on the investment and joint venture aspects of globalization. "As a general rule, manufacturers in any country prefer to reach foreign markets by exports from their home bases rather than through overseas plants. They like the economies of scale of producing in one large plant. Also, they are more comfortable with the labor situation and suppliers in their home countries. They invest in overseas plants for two major reasons: currency problems and protectionism. In the immediate post-war period, American manufacturers of automotive components were hindered in the European market by an overwhelmingly strong dollar. In Latin America, they were hindered by protectionism. The solution in Europe was to establish or acquire foreign subsidiaries." Where it was difficult to obtain outright control of foreign plants, as in some Latin American countries, the solution was joint venture partnerships.

Schnapp says the Japanese face similar obstacles in the U.S. market today because of the yen-dollar fluctuation. So although they would prefer to export from Japan, they have no choice but to establish manufacturing centers here.

So, cars, their components and replacement parts, companies and international conglomerates, customers and their preferences, currencies and their fluctuations, nations and their trade policies, all play a part in globalization. Businesses can survive by adapting to changes as they come, and taking advantage of opportunities as they arise. ■

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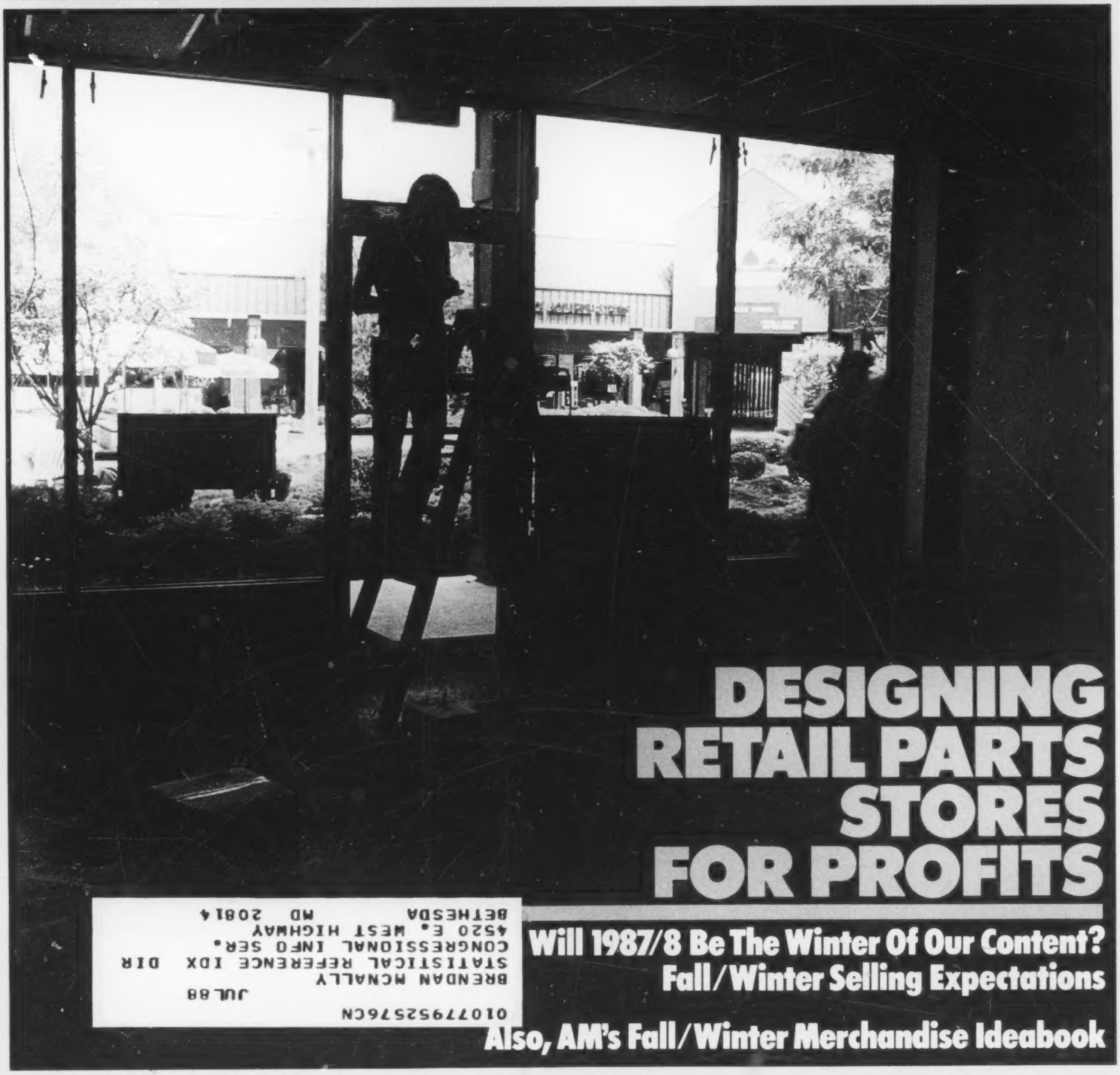
Chilton's AUTOMOTIVE MARKETING

The Marketing/Business Magazine For The Retail Aftermarket SEPTEMBER 1987



DESIGNING RETAIL PARTS STORES FOR PROFITS

Will 1987/8 Be The Winter Of Our Content?
Fall/Winter Selling Expectations

Also, AM's Fall/Winter Merchandise Ideabook

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PUBLISHER'S NOTES

SELLING RETAIL

Location, location, location, says the punchline to that very old "What's the most important thing in retail?" joke.

There's truth to that punchline, but what's inside the store, and how it's presented, are of equal importance to the retailer's bottom line performance.

For insight into the "inside," read Senior Editor Gail Krueger-Nicholson's feature on store design and our Touche Ross partners' view of how to make dream stores come true.

To add icing to our instore cake, bite into our merchandising feature on store dwell areas.

And, while you're thinking "inside," browse through our Fall/Winter Merchandise Ideabook supplement for some great products and seasonal ideas.

Measure your expectations for the coming months against other retailers' projections in Research Editor Philip Katcher's piece on how Fall and Winter will shape-up for sales.

And see how the aftermarket stocks measure up against the total market on our *AM Index* page.

Automotive Marketing's Editor Rosemarie Kitchin's August editorial looked at non-store selling on TV. We continue looking at other ways of selling parts in our Market Line report on electronic shopping, mail order business, and dealership boutiques.

Let us hear from you. ■

Sarah Frankson
Publisher

IN-STORE FOCUS

MARC C. BLOOM DIV./ DCH INC.
Headquarters: 1000 N. Kraemer Place, Anaheim, CA 92806-0065, (714) 632-9660
Stores: 45
Total Corp. Sales: $63,000,000 (est.)
Average SKUs: 3,000 (est.)
Founded: 1926

For those who grew up in Southern California during the last few decades, the Marc C. Bloom tire emporium was a familiar landmark. Its various outlets, scattered throughout the area, were "tire cafeterias"—places where you could purchase, at competitive prices, just about any brand of tire made anywhere. During the 1970s, service bays were added; at one time in the chain's history, gas pumps were part of the service too.

The company experienced heavy ownership turnover, but its basic image remained the same—a place where you could buy any type of tire and could get some types of repair services.

In April 1986, Goodyear made a major California acquisition—Marc C. Bloom in the Los Angeles area; Dormans in San Diego; and Gerards in San Francisco. All are run under the umbrella title DCH Inc., but each retains its identity—with some differences.

The first thing that happened at Marc C. Bloom was a drastic reduction of inventory. The only line carried is, obviously, Goodyear, but within that line is what management calls "full coverage" with good, better, best tires, and a selection of sport wheels.

Upgrading was next on the agenda, and it took place in several areas. First, the units had to be re-identified as "Marc C. Bloom/Goodyear/ Certified Auto Service." It was Goodyear's intention that the units would still be identified as independent dealers in the marketplace rather than Goodyear stores. The Bloom name was already accepted in the market and Goodyear did not want to confuse consumers.

In addition, the number of units was pared down to avoid conflicts with Goodyear dealers, and new training was mandated for all employees. First of all, salespeople had to learn a new way of thinking—in effect, they were going from selling multiple lines to selling one line, and they had to be familiar all aspects of that line.

The new training was not only in product, but especially heavy in the service department, because Goodyear upgraded all service bays with computerized equipment. "We made the service departments state-of-the art," said Richard (Dick) Baxter, executive vice president of DCH. That meant, in some cases, reconcreting the floors and putting in hoists, and other expensive ventures.

Training has been handled by Goodyear personnel from Akron, OH, and there are now Certified Auto Service Classes featuring computerized engine work, front-end wheel alignment, and brake. There is an ongoing schedule for mechanic and service manager training, and also for high-performance tire technicians. At the end of the training, according to management, employees are qualified to pass CSE tests (California's state certification test) and, said Baxter, "we encourage them to take the test."

Like many retailers, Marc C. Bloom suffered a high employee turnover rate. According to Baxter, "we have really slowed down the turnover rate, primarily by our pay scale and rewarding employees for work done. They know there is a future. They can see mobility within Marc C. Bloom and Goodyear."

In one final change, manual invoicing was switched to a Goodyear management system, and that meant further training. Computerized office equipment now handles all invoicing, processing all customers' vital information. Like many large retail chains, Marc C. Bloom now also has computerized inventory ordering systems as well.

The chain of command is similar to most automotive retailers with a strong parent company. The store manager is responsible essentially for everything that happens in his store, but he works with a general policy book that give guidelines on everything. The stores are not all exactly alike in terms of square footage and so forth, but "we try to conform as closely to Goodyear guidelines as possible," said Baxter.

There are 14 high-dollar volume outlets, or "superstores," whose mangers answer directly to a vice president. The other store managers answer to a district manager. There are seven district managers, each of whom have seven stores reporting to them. Superstore managers are next in line for promotion to district manager or other promotions within the corporation. The district managers answer to one of the two vice presidents, who in turn report to Baxter. He answers to Richard (Rich) Gibbons, president and CEO, DCH.

"Our first goal," said Gibbons, "is complete customer satisfaction."

DETAIL

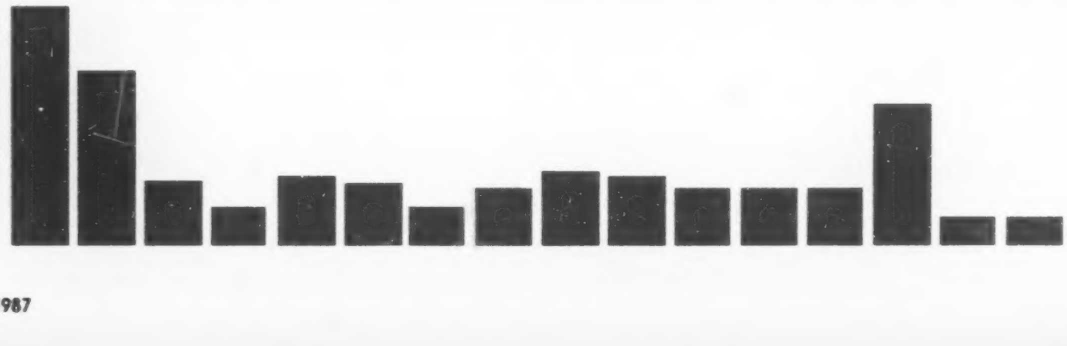
47%

of all adult males in the country say they are interested enough in cars and light trucks to read about the new models, according to the Newspaper Advertising Bureau Inc.

PROFILE: DIYers WHO OWN FORDS

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study*, we look at DIYers who are Ford owners.

			Age					Income				Hours Per Month Spent On DIY			
Total	Male	Female	-25	25-34	35-44	45-54	55 +	-$20K	$20-30K	$30-40K	+ 40K	-1 Hrs	1-5 Hrs	6-10 Hrs	11 + Hrs
100.0%	73.4%	26.6%	13.3%	29.3%	25.7%	14.8%	16.9%	30.5%	29.3%	17.8%	22.4%	17.8%	58.6%	11.2%	12.4%



THE AUTOMOTIVE MARKETING INDEX

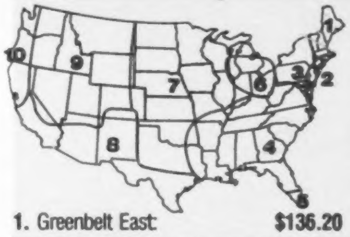
THE 1986-87 *AUTOMOTIVE MARKETING* MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index. The products include a non-resistor spark plug; an oil filter; a can of 10W30 motor oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

JULY 1987 NATIONAL AVERAGE MARKETBASKET PRICES

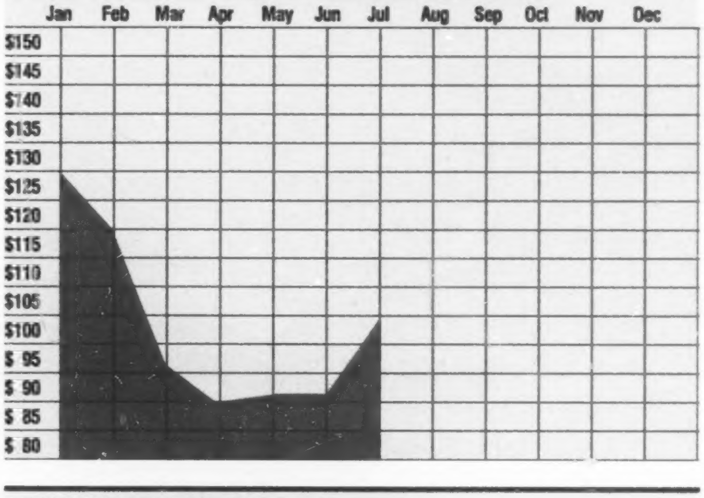
A non-resistor spark plug:	$ .72	A gas-charged shock:	$ 14.85
An oil filter:	2.31	One gallon of antifreeze:	3.50
A can of 10W30 oil:	.74	One pair of wiper refills:	2.41
A can of paste wax:	2.99	A 40-month battery:	31.16
An AM/FM/Cassette:	46.17	**Total:**	$104.85

JULY AM MARKETBASKET PRICES BY MARKETING AREA



1. Greenbelt East:	$136.20
2. Megapolis East:	88.71
3. Smokestack East:	$ 87.99
4. Old South:	102.75
5. Caribbean South:	115.84
6. Smokestack Central:	97.55
7. Grainbelt Central:	98.46
8. Spanish West:	92.75
9. Desert West:	104.85
10. Greenbelt West:	123.08

NATIONAL AVERAGE MONTHLY 1986-87 AFTERMARKET BASKET PRICES



AFTERMARKET BUSINESS INDICATORS

	Unit/Base	Mo/Qr	Current Period	Prior Period	Year Ago, Same Period	Low (61-87)	High (61-87)
Consumer Confidence	(85 = 100)	Apr	91.9	98.4	95.4	–	–
Prime Rate	%	July 13	8.25	8.25	8.50	–	–
Personal Consumption Expenditures	Billion $	1Q	3,630.0	3,662.1	3,481.33	403.8 Jan '61	3,630.0 May '87

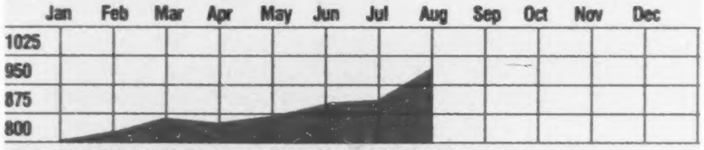
1987 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various aftermarket-related common stocks in various exchanges for the 52 week period prior to August 14.

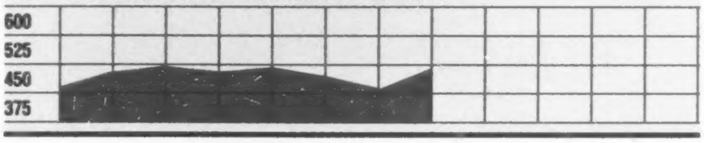
	Exchange	52-week High	52-week Low	8/14 Quote	P-E Ratio
Armor All	OTC	27 1/4	10 1/4	26 5/8	30
Cardis Corp.	AMEX	9 7/8	1 7/8	2 1/8	2
Champ Parts	OTC	12 1/4	3 1/2	9 5/8	44
Champ Spk Plg	NYSE	16 3/8	8 7/8	15 7/8	529
Crown Auto	OTC	4 1/8	3	3 3/4	–
Dana Corp.	NYSE	53 1/2	26 3/8	53 3/4	28
Durakon	OTC	14 1/4	9 7/8	13 1/2	16
Echlin	NYSE	25 3/8	14 7/8	18 5/8	18
Facet	NYSE	23 1/8	8 3/4	22	24
Genuine Parts	NYSE	44 1/4	26 5/8	43 1/2	26
Grand Auto	AMEX	25 1/4	15 1/8	16 1/8	134
Mr. Gasket	OTC	15	4 3/8	6 1/4	–
Prkr Hannfin	NYSE	41 1/4	22 5/8	40 1/2	22
Pennzoil	NYSE	95	51 1/4	74 1/8	48
Pep Boys	NYSE	18 3/8	11 3/4	18 3/8	34
Perry Drugs	NYSE	16 3/4	9 1/2	11 5/8	–
Purolator	NYSE	40 5/8	15 1/4	31 1/4	–
Quaker State	NYSE	31 3/4	21 7/8	26 3/8	13
Republic Auto	OTC	9 1/4	6 3/8	7 1/2	–
Rite Aid	NYSE	46 1/4	26 3/4	42 3/4	21
Sealed Power	NYSE	39 1/4	23 1/8	38 3/8	14
Southland	NYSE	80 1/4	44	75 5/8	14
Stan Mtr Prod	NYSE	25 3/8	16 1/4	19	16
Superior Ind	AMEX	19 3/8	11 3/8	15 3/4	11
TBC Corp.	OTC	19 3/4	5 3/4	19 3/4	17
TRW	NYSE	70	48 1/2	65 3/4	20
Tenneco	NYSE	55 1/4	37 1/8	53 7/8	–
Tracor	NYSE	23	16 1/2	23	25
Trak Auto	OTC	18 3/4	11 1/2	17 1/4	54
Triad Systems	OTC	15 1/8	8 1/2	14	27
Witco	NYSE	47 3/8	31 1/8	40 1/4	14

DOW JONES 65 COMPOSITE STOCKS

Dow Jones 65 composite stock and *AM's* 17 aftermarket stock price as of August 14.



AM 17 COMPOSITE AFTERMARKET STOCKS



PRODUCT OF THE MONTH: OIL FILTERS

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study*, we look at the individuals who purchased and installed oil filters during a 12-month period.

			Age					Income				Hours Per Month Spent On DIY				Number Of Cars Responsible For		
Total	**Male**	**Female**	**-25**	**25-34**	**35-44**	**45-54**	**55 +**	**-$20K**	**$20-30K**	**$30-40K**	**40K**	**-1 hr**	**1-5 Hrs**	**6-10 Hrs**	**11 + Hrs**	**1**	**2**	**3 or More**
100.0%	70.8%	29.2%	11.0%	28.5%	27.3%	13.0%	20.3%	28.4%	25.1%	14.6%	20.9%	17.6%	55.4%	16.1%	9.8%	35.7%	42.3%	22.0%

MARKET LINE

Adventures In Antifreeze 1987: Flat Market And Rebates Continue

Statistics collected yearly by the Chemical Specialties Manufacturers Association (CSMA) show that antifreeze sales fell from about 231 million gallons in 1985 to about 190 million gallons in 1986. However, each of the suppliers we spoke with thinks there's a problem with the CSMA numbers, and they dispute the reported drastic sales slump.

The problem is that companies reporting to CMSA are producers of antifreeze's chief component, ethylene glycol, and are not necessarily antifreeze sellers. For example, the Dow Chemical Co. is surveyed although it dropped its Dowgard brand in 1985 (however, it still sells glycol to antifreeze suppliers), while one of the five largest antifreeze suppliers, Old World Trading Co. (Peak brand), Des Plaines, IL, is not a producer of glycol, and does not appear on the CSMA survey.

"The numbers are probably misstated by at least 10-15 million gallons," one supplier said. The consensus among antifreeze suppliers put antifreeze sales at 205-210 million gallons in 1986, a smaller drop than reported by CMSA but still slightly below a typical 210-220 million gallon year. Suppliers blamed the drop on fewer OE sales and an extremely mild winter over most of the country.

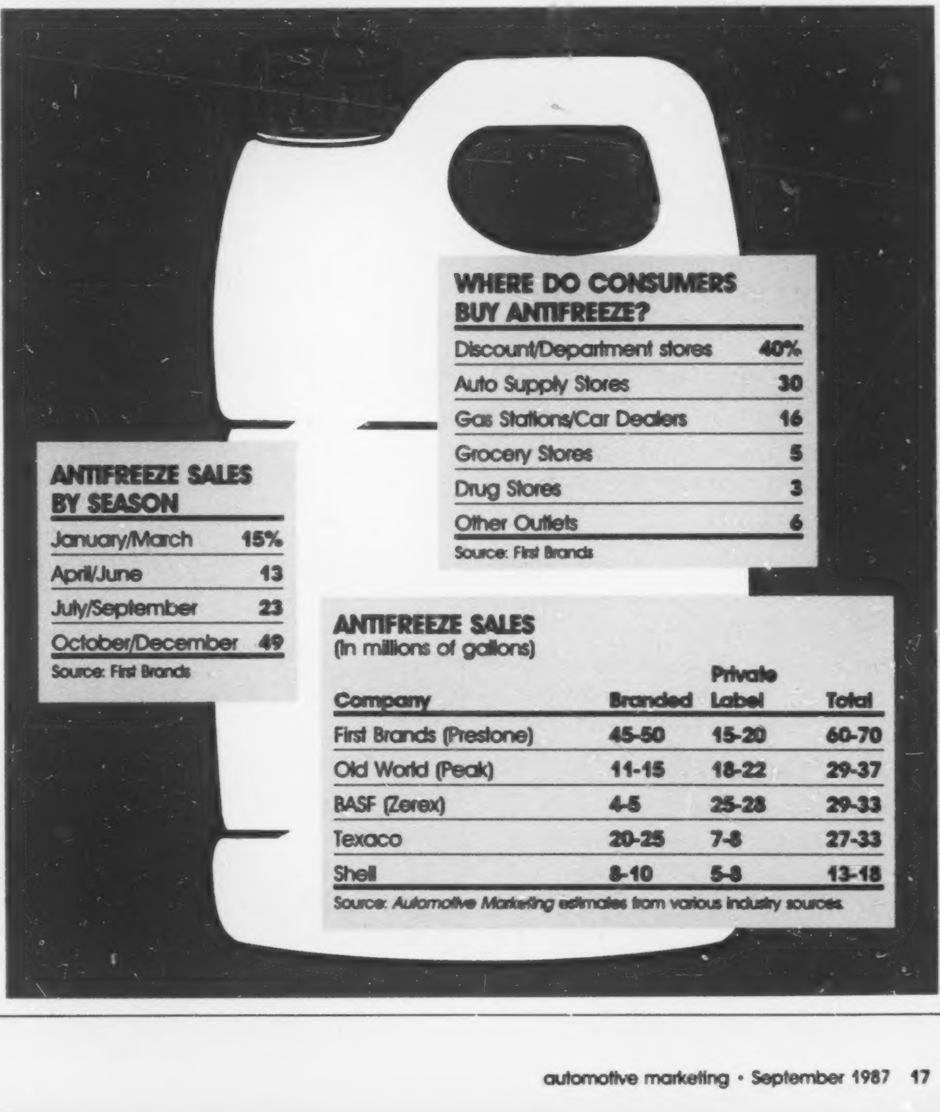
In a typical year, 145-155 million gallons are sold by the gallon at retail, while 50-60 million gallons are sold in bulk to fleets, government, and local repackagers (some of this ends up in gallon containers). The remainder goes to OE sales.

None of the antifreeze suppliers expect major sales gains in 1987. Most see a flat market with less than 2% growth. Inventories are good, suppliers say, and much depends on the weather. "It's strictly a pyschological thing," one said. "An early freeze could send sales skyrocketing."

Suppliers also saw little growth in any of the major channels of distribution, except for some slight increase at auto chain stores. Where they do see growth is in specialty repair shops. Once more, the fast lubes come into play. Two of the largest fast lubes are reportedly planning fall winterizing programs that will tie together an antifreeze flush and fill with a lube and oil change. These programs will roll out in 1988 and several suppliers can't wait.

At the retail level, suppliers see DIY sales leveling off. One way to increase in-store sales, they say, is to increase the number of people who change antifreeze every year (about 30% of antifreeze buyers) rather than topping up the antifreeze already in the radiator.

First Brands Corp., Danbury CT, which markets Prestone, the single largest antifreeze brand (about 45-50 million gallons), aims to do this with a guarantee. The bottom line on the guarantee, according to Prestone, is that if a consumer has a problem with his radiator and it's caused by rust or corrosion, Prestone will fix the radiator. Of course, the radiator has to be flushed and cleaned first to qualify for the guarantee. This makes an opportunity for the retailer to sell high margin flushes and cleaners along with the antifreeze.



WHERE DO CONSUMERS BUY ANTIFREEZE?

Discount/Department stores	40%
Auto Supply Stores	30
Gas Stations/Car Dealers	16
Grocery Stores	5
Drug Stores	3
Other Outlets	6

Source: First Brands

ANTIFREEZE SALES BY SEASON

January/March	15%
April/June	13
July/September	23
October/December	49

Source: First Brands

ANTIFREEZE SALES
(In millions of gallons)

Company	Branded	Private Label	Total
First Brands (Prestone)	45-50	15-20	60-70
Old World (Peak)	11-15	18-22	29-37
BASF (Zerex)	4-5	25-28	29-33
Texaco	20-25	7-8	27-33
Shell	8-10	5-8	13-18

Source: *Automotive Marketing* estimates from various industry sources.

Prestone's strategy aims at getting away from the rebate mania that has ruined profit margins in antifreeze for everyone. Last year, rebates ran about $2-$3 per two gallons. With rebate, antifreeze sells for as little as 99-cents a gallon. The national average sale price for all of 1986 was $3.42 per gallon.

Even at regular prices, antifreeze is not a high margin item. Production of antifreeze is closely tied to production of glycol. Antifreeze is composed of about 95% ethylene glycol which sells for about 18-20-cents a pound. There are approximately nine pounds of glycol in a gallon of antifreeze. Thus, a drop in glycol supplies, or a rise in glycol costs, would change the antifreeze market.

Domestic chemical plants produced some 4.8 billion pounds of glycol last year. Union Carbide, whose main glycol customer is First Brands, is the leading producer. It turns out about 2.1 billion pounds, about 40% of domestic supplies and 18% of world production. Antifreeze takes up about 45% of total glycol sales. Some 35% goes to polyesters used in fibers, plastic bottles, and films. The remainder is used in explosives and paints. Glycol availability is tightening up slightly. A European plant recently blew up taking out about 12% of the European capacity. Domestic plants are running at over 90% capacity.

So, discounting antifreeze is tricky. If rebates run above a 5-6% redemption rate, a company could be ruined quickly. "We probably couldn't even handle 10%," a supplier said.

As one producer wearily put it, "When you rebate 12 months a year, it stops being a promotion and becomes regular pricing. I don't even think we're getting new customers. All we're doing is paying regular customers to buy our brand."

But for the remainder of 1987, rebates will continue. The reason: Everyone wants to be number two. While Prestone is conceded the number one spot (and no company seriously thinks it can overtake Prestone's number one spot), the number two slot is wide open.

Combined Prestone and private label sales give First Brands at least 40% of the total antifreeze market and close to 60% of the retail market. Prestone was the first non-alcohol antifreeze on the market in 1927 and has spend a lot of advertising funds building consumer awareness for the brand. One competitor called First Brands the "500-pound gorilla. Where they go, everyone will follow."

Prestone initiated rebates in 1977 and others followed. If they stop rebating, others will too. It will be interesting to see if other companies match the Prestone radiator guarantee. At least one competitor thought the guarantee "opened up a can of worms, with the potential for a lot of false claims." Still, competitors concede that only Prestone can command a premium price, a decisive advantage. And, no one else can spend the kind of advertising dollars Prestone is able to spend.

Weaknesses? Not many and not apparent. The leveraged buyout from Union Carbide left First Brand with debts, and perhaps the need to pay closer attention to profits than before. Competitors say it's hard to make money selling Prestone since everyone sells it and you have to match prices. But First Brands likes to tie its retailers into a Prestone/private label deal, which gives retailers two price points. And, there is no move by retailers to eliminate Prestone from the shelves.

Although competitors believe First Brands might lose a share point or two, there's no indication Prestone sales will slump in the near future. And, as a competitor pointed out, "You have to walk carefully around them. They could lower their price and kill everybody."

WHAT IS ANTIFREEZE

The major ingredient in antifreeze (93-95%) is ethylene glycol. About nine pounds of glycol are used in manufacturing a gallon of antifreeze. Suppliers add rust and corrosion inhibitors and water to the glycol to make the finished product. "Anyone who can get his hands on some glycol, throws some dye in it, and offers a private label antifreeze," one supplier said. But retailers should be wary. Many small repackagers cheat on the amount of glycol or simply don't add corrosion inhibitors.

"With aluminum alloys in radiators, the corrosion package added to glycol becomes critical. Garbage antifreeze is now dangerous to cars," another supplier said. "Some repackagers add 10% water. We caught one guy on the coast selling a private label that was 90% water."

Although formulas vary slightly by company, any major supplier's antifreeze is a quality antifreeze and safe for any vehicle. Here's the analysis of Prestone II:

94.8%% Ethylene Glycol
3.1% Water
2.1% Soluble Inhibitors
A Trace Of Dye

A 50/50 mixture of antifreeze and water in the radiator (recommended for all but the coldest areas of the country) takes the freezing point down to 34° zero, and the boiling point up to 227°. A 68% concentration lowers the freezing point to −92°. Any higher concentration actually lowers the protection. A 100% concentration only lowers the freezing point to −8°. ■

The number two company is harder to identify. Ask, and they'll each claim to be number two. We see two companies in a virtual dead heat for number two at about 10-15% of the total market: BASF Corp., Parsippany, NJ, and Old World Trading. A third company, Texaco Refining and Marketing, Houston, may be very close to these two.

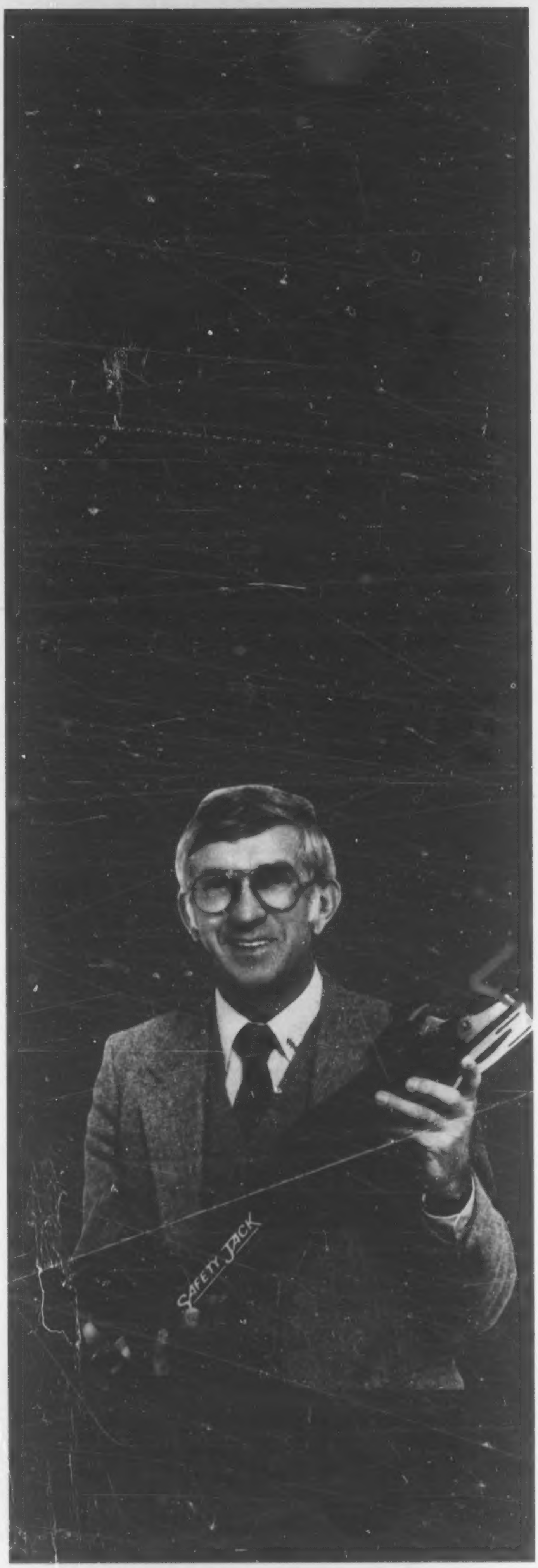
BASF bought the Zerex brand from Conoco in 1986 and now has a strong one-two-three punch with a Zerex/Alugard/private label lineup. BASF is the leading private label seller with 80-90 customers taking about 25-30 million gallons. It is particularly strong in the traditional market. In addition, BASF is the leading seller of antifreeze in Europe with its Glysintine brand. It is a strong company and has made a long-term commitment.

Competitors praised BASF's work with Alugard. Introduced in 1982, BASF sell Alugard as a premium private label, emphasizing its special inhibitors designed to protect the aluminium components of newer cooling systems. Since them, it's almost become a national brand.

BASF sells a second private label mainly because some customers want to identify the private label with their own business rather than printing a name side by side with Alugard. However, Zerex is the number five brand in sales and, even when it was owned by Conoco, other Conoco brands outsold it. They have a tough row to hoe, competitors feel, with the brand. In addition, by pushing Zerex, BASF may hurt its own Alugard/private label sales. Finally, competitors say BASF is close to capacity for glycol production, and the company may have to buy glycol from other producers or import at a higher cost to significantly increase sales.

Old World is lean, mean, and aggressive, competitors say. It has low overhead because it is not a manufacturer. The addition of Peak (purchased from Norchem last year) gives it a recognized national brand to go with its own Advance, Full Force, and private label sales. "Peak has real strength from Chicago to Texas," a competitor noted. The Peak sale also gave them an assured supply of glycol from USI Chemicals Inc. (formerly Norchem). Competitors wondered, however, whether Old World had the financial strength to make Peak a strong competitor.

Texaco is the odd man out in the market. Last year, the black Texaco gallon



(Circle 16 on Product Information Card)

MARKET LINE

bottle appeared in an amazing number of stores. The strategy? Price. Trading on the Texaco name, the company offered retailers a national brand at a private label price. In addition to selling $1-$2 under others, Texaco has the advantage of cross-rebating with its Havoline motor oil. Texaco also secured much of Dow's business with food brokers, and leads in OE sales. Texaco sold 20-25 million gallons of Texaco antifreeze last year, and claims it is the number two brand.

Competitors questioned how long the company could give away antifreeze. One said, "They're willing to buy their way into the market with aggressive pricing structures. It's hard to justify their pricing. They've got to be praying for a low rebate rate." The outcome of the Pennzoil/Texaco court fight over the ownership of Getty Oil which led to Texaco's bankruptcy proceedings could also make radical changes at Texaco. Finally, Texaco admits it is also rapidly reaching its glycol capacity.

There is also Shell Oil Co., Houston. Most of its sales are to its own stations, oil jobbers, and in bulk. However, it may account for as much as 5-8% of the market. One competitor described Shell as "the loose cannon on the deck. They have the capacity to sell 40-50 million gallons." But, as another noted, "They lack a program, advertising, and commitment to retail sales."

Aside from a few locally strong repackagers selling to jobbers, and oil companies such as Conoco that still sell their own antifreeze, these five suppliers make up the national antifreeze market. No one expects new suppliers to come on board. As one chemical supplier said, "The antifreeze market is not very profitable. There're a lot of unhappy people there. In the past it's been a dumping ground for glycol and I don't see any change."

The objective this year, for suppliers, is to get prices back up. Several suppliers expect rebates to vanish after the new year once current rebate plans are concluded. "Not having coupons in the store is a handy strategy for saving money on rebates," a supplier suggested.

Both retailers and suppliers can grow the market by increasing the number of customers who change antifreeze yearly. "Too much antifreeze is sold simply because of critical failures such as boiling over, or radiator leaks. Retailers can do their customers a favor ahead of time," a supplier said. This also has the benefit of selling added product, as well as profitable flushes, cleaners, and sealers. ■

Nissan's "Parts Marts" range from 200 to 1,000 sq. ft., depending on the size of the dealership. Unlike what other OEMs are offering, these "Parts Marts" sell only parts and are generally located near the service writer rather than in the showroom. Each "Parts Mart" is stocked with 100% Nissan branded parts. About 20 planogrammed wall and gondola units are offered to the dealership. The dealerships are buying an average of $3,000 worth of products the first time they stock their "Parts Mart." In some dealerships, there is also a display of accessories in the showroom.

"The idea is to get Nissan customers to buy only Nissan parts. We want to give customers a name they associate with," parts program manager Dave Harris said.

Nissan prices its parts to be competitive, Harris said. Before a "Parts Mart" opens in a dealership, a regional parts manager does a survey of aftermarket prices in the area.

Toyota introduced its "Parts Centers" concept at an October 1986 show for its 1,100 dealerships. Today, there are 41 "Parts Centers" up and running, and that is without an official national roll out of the program beyond the original test unit in Houston, according to parts marketing program manager Robert Swain. Swain said the dealer response to the "Parts Centers" idea was "overwhelming."

Toyota's "Parts Centers" range from 350 to 1,800 sq. ft., depending on the size of the dealership. Anything less than the 350 sq. ft. does not give dealerships enough room to display the full product line, Swain said. But even the smaller centers are too large for some Toyota dealers. "They are not for everyone," Swain said.

Each "Parts Center" is stocked with a selection of Toyota branded repair parts, small items like filters and fuses, and impulse items. Air fresheners and tire gauges are the best sellers so far, according to Swain. Dealers are asking for a wider selection of associated products like waxes and chemicals, so Toyota is evaluating taking on a line of these types of products as well as a line of Toyota branded impulse accessories. "Not everything a customer may need will be found in the 'Parts Center' right now," Swain admitted.

But what is in the Toyota "Parts Centers" is profitable. By sourcing parts through their current distributors, the dealers pocket a 2% return on sales themselves and pass a 17% return on sales along to Toyota. Pricing is comparable to the aftermarket rather than OE, Swain said.

The parts manager or the service manager at each participating Toyota dealership receives two days of training on retailing techniques before taking charge of a "Parts Center" in addition to his regular duties. Two of the dealerships have people in the "Parts Center" full time.

Toyota is pleased with the profits and traffic generated by the "Parts Centers." Swain is predicting that it won't be long before a dealership reaches the $100,000 a month mark in sales at one of the "Parts Centers." And with the kind of increased traffic the centers bring into the dealerships, people may even buy a car, Swain said. ■

Hyundai currently has "Parts Shops" opened at 40 of its 180 dealerships.

Interest In Non-Store Selling At High Level

Non-store retailing affects almost every aftermarket retailer to some degree, chiefly by keeping customers out of retail stores. Instead customers can order products by phone, by mail, or from television with their credit cards. Indeed, some retailers will now come right to their houses.

In a report by Management Horizons, a division of Price Waterhouse, Dublin, OH, titled "Non-Store Retailing—Strategic Options," author William R. Davidson notes that interest in non-store retailing is at an all time high.

Mail order, which offers customers many of the same products sold in automotive stores, is one variety of non-store retailing. Others include vending machines, house-to-house sales, direct mail, and electronic catalogs.

Davidson said participants in non-store retailing have a variety of strategic options to establish their niches. The report illustrates how marketers can intensify, extend, or diversify non-store strategies.

During the 1980s, catalog retailing's growth is one-third greater than retail sales, according to Davidson. Catalog sales is an increasingly complex area where catalog specialists are opening stores, manufacturers are selling direct, and stores are adding catalog operations.

"Analyzing catalog shopping/buying from a consumer's perspective shows that many consumers prefer to shop by catalog because catalog information is perceived as more objective, more complete, available at any time over a extended period, easy to discuss with others, easy to compare with other offers, and valuable for post purchase evaluation," the report said. Consumers prefer catalog buying because of no salesperson pressure, no checkout lines, the opportunity to change one's mind, and diverse payment options.

One growing area in catalog shopping is electronic catalogs using personal computers. Recent developments in electronic catalog marketing indicate most growth activity has been in interactive terminals at home and specialized product offering terminals located public areas.

However, retailers and catalog specialists have been reluctant to develop electronic catalogs because of:

- High cost of developing technology;
- Need to get involved with other third parties, such as software companies;
- Limited available market compared with catalog lists.

The report examines other non-store retail options which have benefitted from a trend to target marketing, widespread use of 800 numbers, growth in credit cards, and more affordable advertising through cable TV. Much of the growth in direct response is by companies that can capitalize on an existing target base to build an "incremental diversification strategy" such as selling merchandise to bank or oil company credit card holders.

The report concludes:

- Most growth in non-store retailing is the result of extensions and diversifications.
- Because it is perceived as an easy field to enter, non-store retailing is overcrowded, and there will be a high mortality rate among companies which do not develop a unique competitive advantage.
- Store promotions and advertising will improve because of lessons learned from the more precise targeted marketing of non-store specialists. ■

TV Brings Stores Home

Despite disparaging news items about the long term viability of electronic shopping and great fluctuations in the stock values of public companies in the new shopping arena, the future for shopping via TV or computer screen looked promising to the hundreds of participants at the fifth annual Touche Ross electronic shopping conference in Crystal City, VA the conference.

One example was cited by Les Goldberg and Don Gordon, Telaction Corp., Chicago, who said 125,000 cable TV subscribers in the Chicago market will receive a new program developed by Telaction, a J.C. Penney subsidiary, by Summer's end.

The Teleaction program includes the Penney catalog and other consumer items. With Telaction, an interactive home shopping system, consumers in the Chicago test market will be able to order home-delivered groceries and pick a delivery time span of two hours. The viewers will shop with real video images, models, and pictures of actual merchandise. There will be audio descriptions of the products available as well.

Initially, customers will be able to order merchandise from only 20-30 merchants, but the program will have four dozen or so when it's completely rolled out. Telaction will have an "international gallery" with products from several premiere merchandise companies from which to choose. A combination of known merchants and respected brand names will "bring the initial consumer confidence" to those using the system, said Gordon and Goldberg.

From focus group research and 160 personal in-depth interviews with potential teleshoppers about their receptiveness to the new shopping mode, Telaction decided to focus its product offerings on what it terms "lower risk" items such as gifts, as well as items which help customers avoid the hassle of shopping for groceries and other commodities.

The consumer benefits include the convenience of choosing when to shop, the enjoyable home atmosphere in which the buying is done, the information available from all the product lines in the system, the multi-store breadth and depth of merchandise, and control over the time and speed of shopping.

The retailers' benefits, according to Gordon and Goldberg, who tout the program as an addition to the suppliers' current retail businesses, include an articulate and consistent sales vehicle, targeted marketing, good customer reach, shopping hours 24 hours every day seven days a week, and a flexible system for product updates. The Telaction leaders said it would take only six to eight days to bring a new product into the system.

Shoppers will purchase items by using their telephone and a personal identification number (PIN). Using the PIN will provide the Telaction merchants with valuable data about the people who buy the products, said the telemarketers. Another Telaction feature will let browsers hook into a party line feature to watch other shoppers check out products, although the privacy of the person who's controlling the shopping and purchasing the items will be protected.

The typical Telaction prospective customer is a person who has great time pressures, lives in a dual income situation, has children, and makes more than $30,000 annually. This description parallels the demographics of the typical TV cable subscriber. ■

FREEDOM TIRE

A consumer craving for convenience has sparked a growing number of auto repair home services such as Freedom Tire, Brookfield WI, which will balance and install new tires right in a customer's driveway. President Monte Tobin says his prices are about 5%-10% below tire stores. Tobin projects 160 Freedom Tire franchises by 1991.

THE WINTER OF OUR CONTENT?

The rest of this year looks good to both retailers and economists.

by **Philip Katcher,** Research Editor

Look for the rest of 1987 to be good for aftermarket retailers if what they, and economists, generally believe comes true.

On the immediate front, the *Automotive Marketing* Retail Panel expects good growth for themselves. In all, 57.1% think that 1987 Fall/Winter selling season will be better than 1986's, while only 16% believe it will be the same as last year's. The other quarter of the panel respondents think the two seasons will be the roughly the same in terms of overall sales.

According to U.S. government officials, the "economy's underlying inflation rate is not accelerating." Unemployment has been holding steady at some 7.5%, down from more than 8.5% a year ago. The prime rate, as of June 15, was 8.25%, down from 8.5% a year previous. In April (the most recent month for which figures were available) some $199.8 billion of new orders were given to manufacturers, up from the $193.15 billion of April 1986. And, retail sales for April 1987 were $125.38 billion, noticeably up from the $117.14 billion reported for April 1986, according to government figures.

At the same time, overall, the country's businesses are growing. Manpower Inc.'s most recent survey of 13,000 businesses indicated that only 8% plan late Summer/early Fall layoffs, while 29% actually plan to add employees then. According to Manpower's president, Mitchell S. Framstein, this supports "an optimistic outlook for the months ahead."

New Cars Aren't Selling

Even with these overall good economic indicators, apparently due in large part to changes in tax laws, people aren't spending their money on new vehicles. Total June auto sales, for example, were 13.6% lower in 1987 than they were in 1986, according E.F. Hutton & Co. figures. The trend continued into July, with 12.4% fewer new cars sold in early July 1987 than in the same period in 1986. There were a few bright areas for new vehicle dealers. Sales of imported cars in June were up 1.2% over the year before, while those of light trucks jumped 8.2% from 1986 to 1987.

These are figures that should bring joy to aftermarket retailers. They imply that people are going to spend money maintaining their present cars rather than buying new ones. And, the light trucks they are buying in larger numbers are vehicles that people traditionally buy aftermarket products for immediately after purchase.

Of course, weather is the single most important factor in getting customers to buy Fall/Winter seasonal products, points out Hughie Elmo Jones, Western Auto, Carmi, IL. "With the mild Winter last year, Winter item sales were down," he reports. This was true throughout much of the country in 1986. This year, said Avis Cox, secretary-treasurer of Cox Auto Supply, Yankton, SD, "hopefully the Winter will be 20° below for weeks and ten feet of snow for two months."

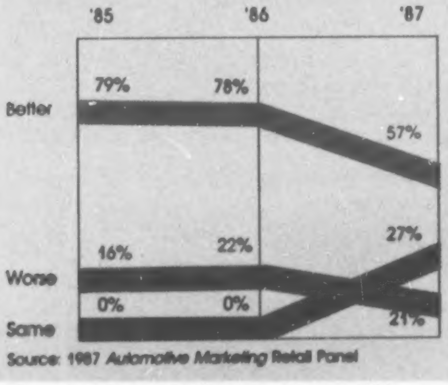
Reminding The Customers

Even if the Winter is considerably colder in 1987 than it has been for the past several years, customers have to be reminded of the necessity and the importance of making sure they've got the products on hand to get them safely through Winter. Too many of them have gotten out of the habit of winterizing. This calls

OPTIMISM SLIPPING ON FALL/WINTER SALES

Retailers think the fall/winter 1987 selling season season will be better than the year before. But fewer retailer are as optimistic this year as were in 1986 and 1985.

How do you think this year's fall/winter selling season will compare to last's years?

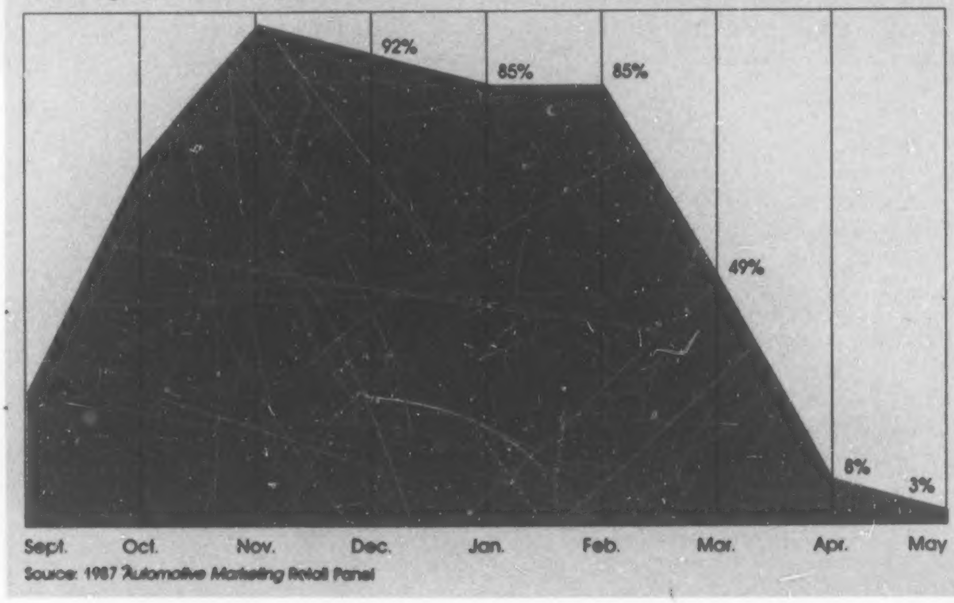


Source: 1987 *Automotive Marketing* Retail Panel

NOVEMBER & DECEMBER ARE BIGGEST FALL/WINTER SELLING MONTHS

We asked our Retail Panel: "What months are in your fall/winter selling season?" We expected regional differences—but we didn't find any. One Florida retailer told us his selling season ran from September through March: a South Dakota retailer said his selling season ran from October through March; and one Ohio retailer said his selling season included only September, October, and November.

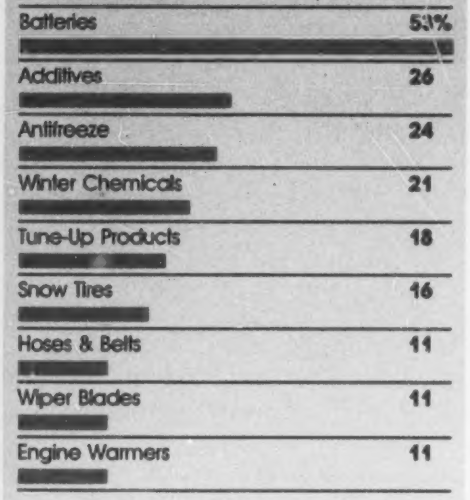
Percentage of retailers saying this month was part of their fall/winter selling season.



Source: 1987 *Automotive Marketing* Retail Panel

TRADITIONAL FALL/WINTER PRODUCTS CONTINUE TO BE BEST SELLERS

We asked our Retail Panel: "What will the best selling Fall/Winter products be in 1987?" Retailers said the best sellers will be general Winter-type products. In 1986, retailers said the best sellers would be light truck and imported car products.



Source: 1987 *Automotive Marketing* Retail Panel

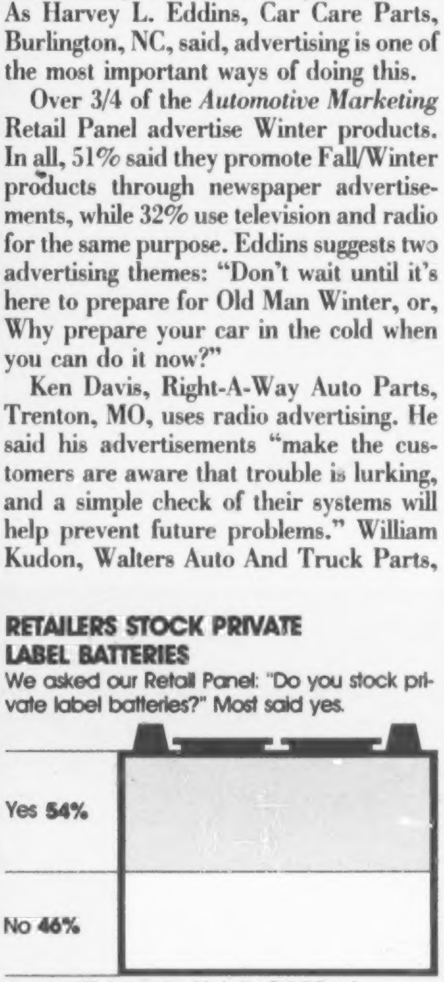
for reaching out and touching car owners. As Harvey L. Eddins, Car Care Parts, Burlington, NC, said, advertising is one of the most important ways of doing this.

Over 3/4 of the *Automotive Marketing* Retail Panel advertise Winter products. In all, 51% said they promote Fall/Winter products through newspaper advertisements, while 32% use television and radio for the same purpose. Eddins suggests two advertising themes: "Don't wait until it's here to prepare for Old Man Winter, or, Why prepare your car in the cold when you can do it now?"

Ken Davis, Right-A-Way Auto Parts, Trenton, MO, uses radio advertising. He said his advertisements "make the customers are aware that trouble is lurking, and a simple check of their systems will help prevent future problems." William Kudon, Walters Auto And Truck Parts,

RETAILERS STOCK PRIVATE LABEL BATTERIES

We asked our Retail Panel: "Do you stock private label batteries?" Most said yes.



Source: 1987 *Automotive Marketing* Retail Panel

Product Review: BATTERIES

Battery sales depend on cold weather. Sure, hotter engines and hot weather takes just as much, if not more, out of a battery, but drivers tend to associate battery failure with the cold. Retailers and makers agree that cold weather is important for a good battery selling season.

"A couple more mild Winters like last Winter, and we'd consider cutting back on the number of batteries we stock," said one Mid-Atlantic retailer. "But, I think we're due some real blizzards this year and, with the strain all the hot weather we had this Summer put on batteries around here, we're bound to do well then."

Despite the mild Winter weather, retailers reported last year as a record one for selling batteries, with over 60 million being sold, up from the 59 million of the year before. They expect batteries to be a bright spot again in the Fall/Winter selling season. In all, 52.6% of the *Automotive Marketing* Retail Panel picked batteries as the product showing the most potential growth for the up-coming season—the product that received the largest percentage of all votes.

Retailers on the panel report that they average six turns on batteries and stock an average of four price points. Most retailers report they stock only one brand of battery, and half of them offer a private label battery.

Low prices and small margins are a problem for many retailers who sell batteries. Almost half the DIYers who bought batteries in 1986, according to the 1987 *Automotive Marketing Consumer Automotive Repair Study (CARS)*, bought the one they did because of low price. At the same time, the average price of a 40-month-warranty battery on sale in 1986 was $31.20, according to the *AM Index*. Perhaps, then, it is no surprise that the average margin members of the Retail Panel reported is 30%. This margin is lower than the usual 50% retailers remember, but is still a quite acceptable margin retailers tell us.

Battery Chargers

There's even more potential growth in the battery charger market. Only slightly more than 20% of the homes in the U.S. have battery chargers, according to one battery charger maker's figures, while the average number of batteries in these homes is increasing daily. These include, of course, not just car, light truck, or van batteries, but batteries in motorcycles, snow-mobiles, and boats. On top of that, the increasing electric loads found in today's vehicles from air conditioners and modern electronic gadgets drains an ever increasing load on even today's batteries built to supplier sufficient power.

Hence, a great potential sales growth in battery chargers is seen.

Some retailers, notably Pep Boys and Grand Auto, have taken advantage of this growth potential. Their successes in battery charger sales are largely attributed to the time they take to train their floor personnel on selling chargers. It has obviously been time well spent. Sears is another retail chain that has been very successful in the charger business; a success attributed to the fact that Sears developed—and promoted—its own line of chargers.

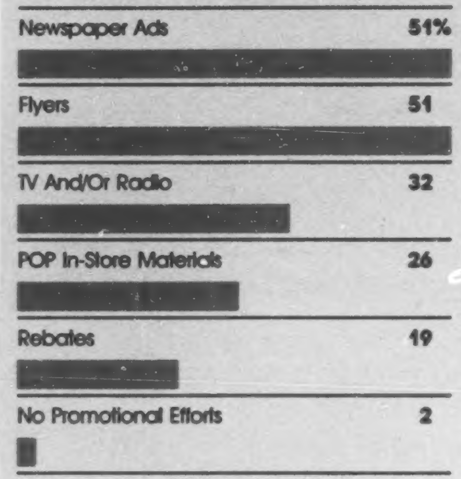
There are a number of different battery chargers available to the retailer without the time or money to develop his own lines. These range not only in prices, but purposes, with chargers being used for outboard motors and other non-automotive purposes as well as for cars, light trucks and vans. *AM* Retail Panel members report that they carry two brands, on average, with a 33% usual average gross margin. Inventory turnover, on average, is one. They also say that they carry, on an average, seven SKUs of battery chargers, with a price range that runs between $30.70 to $135.

This compares favorably with the suggestion of one manufacturer that six SKUs should be carried; a one amp trickle charger, a 6/2 for cars and motorcycles, a ten amp manual, a ten amp automatic, a 10/50 or 10/30/50 booster charger, and a 10/40/200 wheel charger. Prices on this manufacturer's suggested inventory range between $20 and $150.

Both batteries and chargers both offer a retailer a chance to make it a good Fall/Winter selling season. They should be displayed, preferably together, and promoted heavily. ■

HOW RETAILERS PROMOTE FALL/WINTER

We asked our Retail Panel: "How do you promote yourself during the fall/winter selling season?" Most of our panel members planned some sort of promotional effort, and a surprising number are going to tell their stories over radio and television.



Total of more than 100% is due to multiple answers.
Source: 1987 *Automotive Marketing* Retail Panel

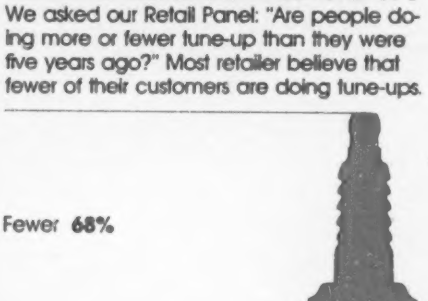
Waterbury, CT, said his company's advertisements let its customers know "what to do, for 'an ounce of prevention is worth a pound of cure'."

Many retailers are taking advantage of the public service print advertisements produced by the Car Car Council, Detroit, which culminates with National Car Care Month in October. Right-A-Way's Davis said he "stresses October Car Care Month" in promoting Fall/Winter selling, and he is only one of the 51% of *Automotive Marketing* Retail Panels said they who do so.

Some retailers, however, told us that they were unfamiliar with the project. The Council, through donated advertising

RETAILERS SEE DECLINE IN TUNE-UPS

We asked our Retail Panel: "Are people doing more or fewer tune-up than they were five years ago?" Most retailer believe that fewer of their customers are doing tune-ups.



Source: 1987 *Automotive Marketing* Retail Panel

Product Review: TUNE-UP

Sure, the news looks bad—at least superficially. People in the aftermarket business agree: vehicle owners are doing fewer tune-ups than ever. According to 68% of the *Automotive Marketing* Retail Panel, noticeably less car owners are doing tune-ups than they did five years ago.

One manufacturer which has been tracking the tune-up market for many years recently reported that "the DIY trend—virtually level for nearly a decade—began its downward course in late 1983." The company's most recent statistics suggest that this trend has continued, as it found that DIY installation has "dropped from 41% in 1983 to 38% in 1985." And, it appears that the service market hasn't gained the lost customers.

Tune-Ups Can Be Sold

However, these statistics reflect practices of *all* the vehicle owners, including traditional installer customers, in the country. Every aftermarket retailer knows that a sizeable number of vehicle owners don't do sufficient or proper maintenance of any sort, including tune-ups. They haven't been, nor are they going to become, major tune-up customers. However, the customers who actually come through aftermarket retail store doors are DIYers who do maintain their cars and do tune-ups.

To begin with, tune-ups are still needed, even though they don't produce the obvious driving performance results they did in older vehicles. But, proper attention to the tune-up parts that can be checked and replaced when necessary, such as spark plugs, can make even today's four-cylinder cars start easier, run easier, and get better mileage. Unfortunately, too many vehicle owners don't know this. Obviously, vehicle owner education, both on the continuing need for the tune-up and the methods and tools with which it can be done, is called for.

The Serious Tune-Up Crowd

Customers want to know that they can and should still be doing tune-ups. The customers who do maintain their vehicles and shop in auto parts stores are basically serious DIYers who still believe in tune-ups. Many of them actually never stopped doing tuning-ups.

For one thing, electronic ignitions, which in large part have created the feelings that the tune-up is unnecessary or impossible for a DIYer to do, didn't become the standard ignition system in most vehicles on the road until the 1978 models. There are, however, a lot of cars made before then still functioning. The Motor Vehicle Manufacturers Association (MVMA) reports that over 63 million cars made in 1977 or before are still on the road. And, in all, 52.2% of DIYers surveyed in the 1987 *Automotive Marketing Consumer Automotive Repair Study (CARS)* reported that they owned 1977 or earlier cars.

Therefore, it comes as no real surprise that, according to the 1987 *CARS* study, the number of DIYers who bought a vital tune-up component, the spark plug, was a healthy 58.9%. Admittedly this was a serious drop from the 74% spark plugs purchasers reported in our 1984 study, but plugs were still the third most popular automotive product sold to DIYers in 1986. And, the percentage of those DIYers who install their own spark plugs or have another DIYer do it for them has remained constant at around 80%. Hence, the retailer should continue marketing ignition and tune-up products to that large block of customers who still own older cars and do their own tune-up work or who know enough to do tune-ups on newer models.

Sell The Whole Tune-Up

And, when one of those customers come in for a tune-up item, such as a spark plug or spark plug wires, the retailer should go beyond just providing that item. Carl DiGiloramo, Carl's Auto Parts, Corfu, NY, points out the need, when selling anything needed for tune-ups, to sell everything related to the job. "Suggesting everything needed for a tune-up is a customer service," he says.

Obviously, therefore, a retailer should maintain his inventory of ignition SKUs. He has to educate his customers through advertising and in-store displays as to the need and possibility of the tune-up today. Then, he should practice add-on selling to make sure his customer gets everything he needs to do the job right. Given this, there's still a good market for tune-up products out there. ■

and news releases run in newspapers, magazines, and special car care advertising sections, tells car owners about the need for preventive maintenance to save money, gas, air quality, and even possibly lives. National Car Care month is supported by government, industry, and public interest groups. Retailers interested in learning more about the program can get in touch with the Council directly. It is located at 600 Renaissance Center, Detroit, MI 48243. The phone number is (313) 259-4612.

Advertising's Not The Only Answer

Jones of Carmi's Western Auto, however, faces a problem many retailers face. He believes that more advertising could help bring in customers to buy products to prepare for Winter emergencies. "But," he adds, "I don't believe the increase in sales would justify the cost of advertising."

For such retailers, in-store displays can be a major part in promoting Fall/Winter specials. Gilbert Esty runs a Western Auto store in Exeter, NH. His major way of telling his customers what sort of main-

Product Review: CHEMICALS

Say Winter chemicals, and antifreeze/coolant is the term that most often comes to mind. In fact, 23.7%—the second largest percentage—of *Automotive Marketing* Retail Panel members picked this product as showing the most growth potential in the Fall/Winter selling season.

There is evidence to back this up. One manufacturer said its figures indicate that 70% of all motorists do not flush their vehicles' cooling systems and replace the antifreeze annually. Just getting some of them to do this simple maintenance task would improve antifreeze sales.

Another manufacturer discovered that vehicle owners who winterized their cooling systems by flushing old chemicals and replacing them with new antifreeze and water save, on average, $170 in repairs and service costs a year. Over a vehicle's lifetime, savings could reach more than a thousand dollars on these costs. Getting motorists to realize this could bring in many of those missing sales.

Dollars can still, however, be gotten from the pockets of those who fail to flush and refill annually. One manufacturer recently introduced a product that "rejuvenates neglected antifreeze without a change." The product, used as a top-off, restores the original antifreeze/coolant's "protective components without flushing the system," according to the maker.

Education, Not Rebates

Indeed, too many drivers aren't aware of either the value of a complete antifreeze replacement or of any new products to replace the whole job. Retailers consider consumer education to be an answer to increasing the antifreeze/coolant market. However, suppliers have been using promotional methods such as rebates to increase antifreeze sales—and market share. Last year, rebates of $2 to $3 per two-gallon sales were not uncommon. Manufacturers expect to continue the practice, although rebates are not very popular with retailers. Only 19% of the members of the *Automotive Marketing* Retail Panel depend on rebates to increase sales during the Fall/Winter selling season.

Even though antifreeze is not sold on the scale it could be, it is still a basic commodity. Every *AM* panel retailer carries antifreeze. They report that they stock two antifreeze price points, on average; with an average margin of 64%; and an average of seven turns. Many of them stock a private label as a second price point; of the antifreeze sold by the five largest manufacturers, some 45% is sold under private labels.

Because antifreeze is so often sold on sale, often with rebates, margins are squeezed. One manufacturer recently approached this problem by offering a guarantee on antifreeze-caused damage to radiators filled with its antifreeze—provided that the customer first properly flushed the system and refilled with a correct amount of the manufacturer's antifreeze. In theory, this should improve sales of products related to antifreeze/coolant, products such as radiator flushes and testers.

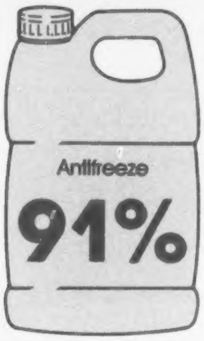
The Add-On Sale

This form of add-on selling is not new. Ken Hottle, who runs a Western Auto in Sidney, OH, said his plan to increase Fall/Winter product sales is to "run specials on antifreeze and ask customers who come in for it about other items in their cars that may be wearing out." Horton Edward, West's Automotive, Newport, RI, agrees. "In order to survive," he said, "we must sell related items in at least 35% of our sales." And, this sort of selling helps the customer as well. Mark Madden, Cloverleaf Auto Parts, Pittsburgh, a retailer in another of the nation's cold spots, points out that selling all these products actually "saves the customer troubles by not making him make four or five trips to do a job right."

So, to do the job right the first time, the customer will need a radiator flush, a radiator cleaner, a rust inhibitor, and perhaps a sealant as well as antifreeze itself. While in the store, and thinking about cleaning out his vehicle's systems for Winter, this customer can easily be sold a carburetor cleaner or one for fuel injectors, and a gas additive to remove water that can freeze in the fuel lines. Owners of diesel engine cars will need an additive that boosts cetane in the winter, due to the fact that many diesel fuels available today tend to get thicker and clog fuel lines and filters in low temperatures. ■

ANTIFREEZE IS THE BEST SELLING FALL/WINTER CHEMICAL

We asked our Retail Panel: "What are your top three selling fall/winter chemicals?" Antifreeze was far and away the best seller. The figures below represents the percentage of retailers mentioning a given product.



Windshield Washers/Solvents	56%
Gasoline Additives	44%
Starting Fluids	42%
Carb Cleaners	20%
Transmission Fluids	15%
Radiator Fluids	11%
Oil Additives	7%
Diesel Additives	6%
Leak Inhibitors	6%
Waxes/Polishes	6%
Lock De-Icers	4%

Total is more than 100% due to multiple answers.
Source: 1987 *Automotive Marketing* Retail Panel

CAR CARE MONTH IS IMPORTANT
We asked our Retail Panel: "Do you take advantage of Car Care Month in your promotions during the fall/winter selling season?" Half of them did. Those who didn't had their promotions established by such groups as programmed distributors or didn't know much about the Car Care program.

Yes	No
50%	50%

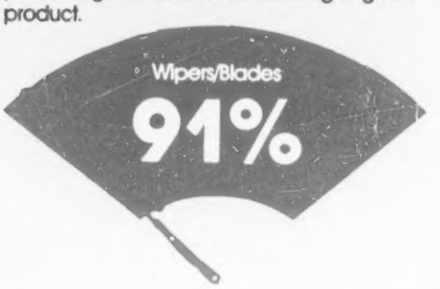
OCTOBER IS
NATIONAL CAR CARE MONTH

Source: 1987 *Automotive Marketing* Retail Panel

tenance they should do for Winter is "use of in-store displays to emphasize what should be done and how simple many of the procedures actually are." Lewis B. Edwards, Edwards & Son of Pahokee, Pahokee, FL, agrees. "We use endcaps to remind people of the attention that their car should receive."

Finally, Jim Martin, who runs a Western Auto Store in Kirksville, MO, knows what he really wants to make a super Fall/Winter selling season. "If our suppliers could give us some truly good buys," he tells us, "so that we could have a few *hot* prices and still make a profit, we would be pleased." Sounds good to us. ■

WIPER BLADES ARE THE MOST POPULAR FALL/WINTER ACCESSORY
We asked our Retail Panel: "What are your three best selling fall/winter accessories?" Wiper and blades were far and away the best sellers. The figures below represents the percentage of retailers mentioning a given product.



Headlights	80%
Cables	65%
Tire Chains	24%
Flares	7%
Safety Lights	4%

Total is more than 100% due to multiple answers.
Source: 1987 *Automotive Marketing* Retail Panel

Product Review: ACCESSORIES

"All of our people suggest seasonal needs, especially safety items," reports Lochen H. Bibb of J.B. Cook of West Nashville, Nashville, TN. He emphasizes that "fun" accessories move best in Summer, things like dress-up items and gaily-colored sunscreens, but top-mover Winter items are serious products that help guarantee the driver's safety. Things like wipers, chains, flares, and headlights.

Glamorous? No. But they are solid investments and money in the bank for retailers.

That's not to say that customers automatically flock to buy safety items. Traditionally, they don't like to be reminded of their necessity. Indeed, when asked how more customers could be made to prepare their cars for an emergency, Louis Wilson, C.W. Douglas Inc., Buzzards Bay, MA, speaks for many retailers when he affirms, "Salesmanship is the only way."

Windshield Wipers/Blades

Windshield wipers and blades make up one product category that clearly demonstrates how customers don't think ahead to get an important safety product until it is very much a necessity. A wiper product manufacturer recently surveyed vehicle owners and discovered that 23.1% of them experienced recent problems with the quality of cleaning done by their windshield wipers. "That means that nearly one of every four motorists, or more than 19.6 million cars on American roads, should be in the market for...wiper blades or refills," the company's product manager said.

Moreover, the wiper blade replacement business is largely a DIY business. The company's 1986 survey indicated that 63.7% of motorists who bought wiper refills installed them themselves, an increase of about 3% in three years. The decline of full-service gas stations is the main reason for this, since the company's figures indicate that the traditional service station has lost about a third of its share of wiper installations during the 1980s. However, 47% of the car owners the company interviewed never replaced their wipers.

"To tap that market potential required a greater attention to telling motorists about their wiper needs. The use of consumer advertising and point of purchase merchandising, in addition to personal conversations with motorists, whenever possible, are steps in the right direction," he said.

Lighting Products

"Before ringing up a sale, we ask a question such as, 'do you have any lights that should be replaced'?" This is how Lewis Edwards, Western Auto, Pahokee, FL, deals with making customers aware of potential safety problems that can be solved by timely lighting replacements. And, with the longer darkness of Fall and Winter months, good lighting is especially vital in this selling season.

Headlights are the most obvious light that can need replacement. Drivers often become aware of a burned out headlight in Fall/Winter darkness that they hadn't noticed when driving in the brighter Summer. Indeed, 80% of *Automotive Marketing's* Retail Panel picked headlights as one of the best selling Fall/Winter product they stock.

But, today's vehicles are a mass of lights, both inside and out. And, all of them should be working for maximum safety. Several companies now offers a single packaged kit that contains bulbs to tail, signal, parking, dash, sidemarker, license plate, interior dome, and third brake lights. It is packaged to be an impulse buy at a cash register, an advertised special sold on endcap, or a pegboard item in a small auto section. The kit gives retailers something unusual, inexpensive, and helpful to offer motorists, especially in the months when lighting is so important.

Other Safety Items

The *Automotive Marketing* Retail Panelists saw good sales in other Winter safety items. In addition to wipers, wiper blades, and headlights, they named, in order, battery jumper cables, tire chains, auxiliary safety lights, ice scrapers, and flares. Most of these are now available in attractive packaging designed for impulse buying. A retailer who stocks and promotes all these safety items will increase sales—and help make sure customers make it through the Winter easily to return to his store for next year's Spring/Summer season. ■

DESIGNING RETAIL PARTS

Store design and product merchandising do more than make your store look good. These concepts make money for you.

by **Gail Krueger-Nicholson**, Senior Editor

It's a sad story. Bill sits behind the parts counter of "Bill's Automotive Store" day after day. Sometimes he walks down the cluttered aisles, tripping over discarded merchandise, and looks out of his dirty windows. He peers around the sun-faded posters, and watches people – potential customers – hurry down the sidewalk. Few people stop in any more, and of those who do, fewer make big ticket purchases.

Bill's been in business for 30 years. He's a nice guy. He supports the Little League. And he used to know every customer who walked in his front door by name. So, why isn't Bill's business booming? What's wrong?

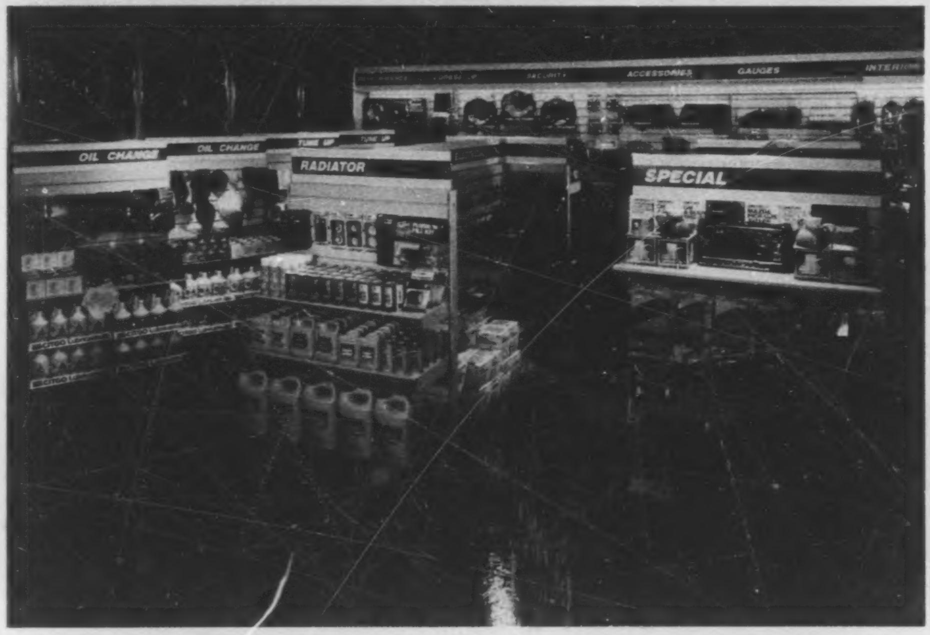
"I'll tell you what's wrong. His store's a mess. Instead of watching the heads go by a dirty window, he should stand out on the curb and look at his store. He may be a nice guy, but customers don't have time to get to know him anymore," Les Masover, director of marketing for Retail Store Planning Consultants, said.

Masover, whose Lincolnwood, IL, company specializes in store design, told the story of "Bill's Automotive" to make a point. The point is this: a well-designed, well-merchandised store makes money. A store that isn't well-designed and isn't well merchandised will fall by the wayside in today's competitive aftermarket.

Get Their Attention

How your store looks and its image are what gets customers' attention in the first place. "Let's face it, today's customers don't care if you're a nice guy. People move, new people come to town. They don't know you're a wonderful person, and they don't care. You have to make an impression, you have to give them a reason to shop your store," Masover said. Instead of counting on good will, today's aftermarket retailers must make a dynamic first impression and follow that up with continuing impressions of a clean, uncluttered, exciting, easy place to shop.

Making those good impressions gets harder every day. That's because all forms of retailing have become increasingly competitive, with stores growing in size and number out of proportion to the population, according to John M. Kawula, president of the Point-of-Purchase Advertising Institute (POPAI). For example, the average square footage of stores (There were 1,100,750 retail outlets of all types in 1982.) increased by 80% in 1986, while the population grew at the much slower rate of 12% in 1986. Consequently, retailers are faced with a difficult consumer shortage, Kawula, whose Ft. Lee, NJ, association studies consumer shopping patterns, said.



This prototype store shows how graphics and lighting can generate excitement and give a store individual identity.

Miller/Zell

Add to that a fact you already know: more and more stores, and many nonstore retailers as well (see our Market Line section), are selling aftermarket products. It's a tougher struggle for consumer dollars, Kawula said.

But you can win the struggle with good store design and strong product merchandising. For instance, even a minor "re-design" like slapping on a fresh coat of paint and doing some basic clean-up work will increase business by 5%-10% over the short term, Peter Carpenter, a store design expert from Miller/Zell Design Research, Atlanta, said. And the power of merchandising is even greater.

"We know from POPAI consumer studies that the average consumer will purchase 15-20% more in a store that he perceives as well-merchandised and exciting to be in," Kawula said. POPAI studies also indicate that 66.1% of all purchases are a result of an in-store decision between one product and another, and that unplanned or impulse purchases account for more than half of all purchases (52.6%).

So how do you harness the profit power of store design and merchandising for yourself? How do you build a positive image for your store? Begin by developing a store design that grows out of your marketing plan and how it relates to your customers. Critically analyze how your store looks by focusing on four key design points: store layout, lighting, signage, and fixtures. And finish off with a review of how you merchandise your products. At each step of the way, there are professionals who can help you. But you can do-it-yourself, too. (For a look at how some jobbers are re-designing and re-merchandising for greater profit, read our case study.)

First, A Marketing Plan

Store design means more than just pushing your gondolas around, though that is just what most retailers do when they "re-design" their stores. (The charts with this story show you how *Automotive Marketing's* Retail Panel re-designed their stores). Store design means having a marketing plan and implementing that plan via store design.

"Store design should be marketing driven. If it is not, than store design, or re-design, becomes an exercise in futility. You must do your homework," Carpenter said.

Your store is the tangible means of expressing your overall marketing strategy.

STORES FOR PROFITS

STORE DESIGN

We asked our Retail Panel: "How many years ago did you last update or change the look of any part of your store?"

Less Than One Year Ago	45%
1-2 Years Ago	20
3-5 Years Ago	17
6-7 Years Ago	5
8-10 Years Ago	6
10 Or More Years Ago	8

Source: 1987 *Automotive Marketing* Retail Panel
Numbers may not equal 100% due to rounding and multiple answers.

As such, the design of your store must be developed in the context of your marketing plan. Implicit in the marketing plan is a clear and concise definition of who your target customers are (or who you want them to be); what their specific needs, wants, and purchasing powers are; and how your store can best respond to their need.

Central to your marketing plan should be a consumer response statement, Murry Gelberg, president of Gelberg & Co., a New York City store design firm, said. The statement represents the response you want to consistently elicit from consumers when they are exposed to your store. For instance, Bloomingdale's wants its customers to feel excited (and of course to spend lots of money) each time they walk in the store. To that end, Bloomingdale's makes its stores into ever-changing merchandise shops. Bloomingdale's makes sure that its stores are never dull, its customers never bored.

The desired consumer response should be the driving force in your marketing plan and your store design. (For a detailed look at how this works, see the 1987 Management Reports in this issue and the August, 1987 issue.)

For example, are your customers heavy DIYers looking for a complete selection of hard parts? If so, open up the areas behind your parts counter so the customers can *see* the depth you have in hard parts. Put up no nonsense, industrial shelving. Expose all the nuts and bolts, from the light fixtures to the heat ducts.

Are your customers car-proud performance freaks? If so, round off all the corners and finish all the edges. Cover exposed surfaces with high gloss, shiny materials. Give your store a slick, sporty feel.

Do all of this and you have created a store that *looks* like your customers. You have created a positive, comfortable shopping environment that fits your customers' image of what "their" aftermarket store should look like. In other words, the design of your store should appeal to your target core customer base. If it does, those people will visit your store frequently. And they will buy more.

Do you want to capture a different customer base? Then reposition your store by changing how it looks. Just make sure to project a sharp, clear image. A little bit of everything adds up to nothing.

How Does Your Store Look?

Don't be like Bill. Get out from behind your parts counter and your cash register and take a hard, cold look at your store. Look at it from the customers' point of view. Ask yourself "Would I shop here if it were somebody else's store?" Ask your wife if she'd be comfortable shopping in your store. And ask your customers how you could improve your store, how you could make it more comfortable for them to shop in.

When you're done asking those questions, go to other aftermarket stores and ask the same questions. And when you're done there, go to other types of stores (clothing stores and grocery stores are the best at design and merchandising according to the experts) and ask the same questions.

You may not like the answers you get, or how your store stacks up against the others, but you can do something about it. Begin by focusing on the four most critical points of store design.

Store Layout

A well planned store layout, or customer circulation pattern, may be the single most important factor in improving your store's sales, Carpenter said. It takes good customer movement, or traffic flow, to expose *all* your customers to *all* your merchandise. Carpenter and the other store designers *Automotive Marketing* spoke with all prefer the loop or racetrack layout. With an effective loop, the store is easy to categorize. Strong merchandising statements are easy to make.

Carpenter suggests asking yourself the following questions about your store layout:

- Can your customers see all the merchandise you offer?

STORE DESIGN: PARTS COUNTERS

We asked our Retail Panel: "When you last changed the look of your store, did you do any of the following to your parts counters?"

Install a new parts counter?	47%
Move the counter to the back of your store?	21
Move the counter to the front of your store?	3
Move the counter to the side of your store?	10

Source: 1987 *Automotive Marketing* Retail Panel
Numbers may not equal 100% due to rounding and multiple answers.

STORE DESIGN: CASH REGISTER/ CHECK OUT STAND

We asked our Retail Panel: "When you last changed to look of your store, did you do any of the following to your cash register/check out stand?"

Install a new cash register/check out stand?	28%
Move the cash register check out stand to the back of your store?	9
Move the cash register/check out stand to the front of your store?	12
Move the cash register/check out stand to the side of your store?	8

Source: 1987 *Automotive Marketing* Retail Panel
Numbers may not equal 100% due to rounding and multiple answers.

- Can two customers comfortably push shopping carts down one of your aisles in opposite directions at the same time?

If you answer "no" to these questions, it's time to push those gondolas around. But remember, with all the merchandise exposed to your customers, you may have to re-shape some of your thinking: There are no corners that can be forgotten, and buying mistakes can not be hidden.

Lighting

Masover believes that store lighting is probably the most neglected element of store design. Not only should there be enough light in the store so your customers can read product package information comfortably, lighting should also be used to create shopping excitement. Lighting should create importance and highlight focal points of merchandise. Lighting should direct attention toward the predetermined focal points of your store. Lighting should be used as a decor element in your store.

Ask yourself the following questions about your store lighting:

- Can your customers see all the merchandise you have to offer?
- Can they read package information?
- Does your lighting highlight special, high-ticket merchandise and draw your customers' attention to that merchandise?

When you review your lighting, don't forget your ceilings. They comprise 25% of what a customer in your store sees at any given time. If the ceiling lighting is unattractive or inappropriate, then a quarter of your store presentation suffers.

Signage

Masover believes signs can be categorized as image (large graphics of race cars and products), directional (over the parts counter, over the cash register), informational (menu of available services)or identification (aisle markers, product signs) and point-of-purchase (display signs provided by manufacturers or produced by the store). Each category of sign should blend with the total theme of your store and each should be used with discretion. Signs should not distract from your merchandise, but should be an aide to sales.

Ask yourself the following questions about your store signage:

- Do your signs identify all the merchandise you have to offer?
- When customers walk in the front door, can they tell what sort of store you are (a store heavy on hard parts, a store heavy on performance parts) by your signs?
- Can customers quickly find the aisle where you keep wax and polish (or any other product category) by looking at your signs?
- Do other signs direct customers to other items of interest like sale merchandise and special buys?
- Do you keep point-of-purchase (POP) signs up to date?

If you answer "no" to any of these questions, or if there are signs in your store that do not perform those functions, throw those signs away and start over.

Fixtures

Fixtures are to your merchandise what scenery is to actors in a play. Fixtures and scenery do not, and should not, dominate the action. They should instead set the stage for a successful production or, in the case of your store, a profitable transaction.

"The universal problem in retailing today is how to utilize space profitably. Fixtures can play an important role in the

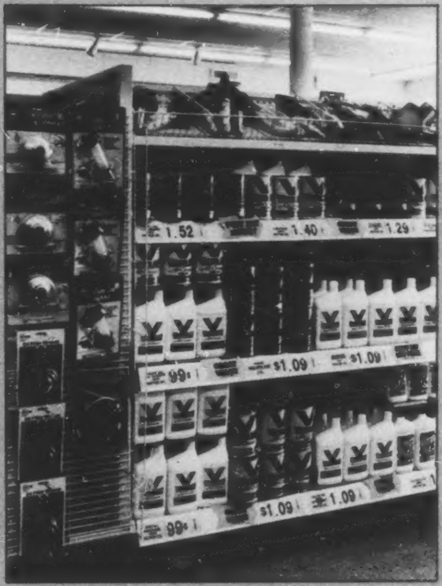
GREEN LIGHT GOES RETAIL: A CASE STUDY FOR STORE RE-DESIGN AND RE-MERCHANDISING

Three years ago, the executives of Green Light Auto, wholesale distributors from Ft. Smith, AR, (part of Mid-America Industries) made a decision. Green Light decided that the 475 jobber stores they sell merchandise to needed repositioning to successfully compete against retail automotive chains and discounters for a bigger piece of the aftermarket pie.

They decided the jobber stores had to be brighter and cleaner. They had to have modern traffic patterns. They had to carry lines of "out front" retail-oriented products like air and oil filters, oil, and accessories in addition to their standard lines of hard parts. Those "out front"products had to be well merchandised and competitively priced. And advertised. In short, the Green Light jobber stores needed re-designing and re-merchandising.

To that end, Green Light developed an aggressive turnkey retail program, the heart of which includes store re-design and re-merchandising, for its jobber stores in the Midwest and Southeast. To date, 147 stores, including 40 company-owned stores, have converted to the retail program. All 475 stores now serviced by Green Light will be converted in five years, according to the marketing manager of retail programs, Charles Bockelman. And new stores will have the Kelly green and yellow Green Light retail look, too, Bockelman, who came to Green Light from Western Auto, said.

The results of the program are impressive. "We've found that jobbers who have converted to our retail look have seen an average 23.5% increase in sales," Bockelman said. A 14% to 15% increase in business is the break-even point for the converted jobbers. Most of the jobbers who convert recoup their initial $40,000 (average) investment in six to nine months, he added.


Green Light Auto uses an endcap merchandiser to create an additional 4½' of display space on each side of an endcap.

Converting to the retail program is a turnkey operation. When a jobber decides to convert, he contacts his regional Green Light representative. Together, with help from the marketing staff in Ft. Smith, they develop a profile of the jobber's market area, a profile of the customers he has and the customers he wants to reach, and a profile of his competition. In all probability, it will be the first time the jobber has ever looked at his business like this. From there, the jobber and the regional Green Light representative develop a plan to help the jobber implement the retail program.

Bockelman uses a step-by-step formula to convert jobber stores to out front retailers. "We begin by giving a jobber store a complete new retail look inside and out. It's attractive to consumers. The program has exterior and interior design that includes color and decor, graphics, and signage. A bold use of green and yellow stripe accents is Green Light's trademark," Bockelman said. The redecorating costs an average Green Light store about $3,000.

"The new look alone is a big plus for increased sales," Bockelman added.

After getting the customer into the store, the next step is to get him through the entire store. This is done with store layout. Green Light Auto creates traffic flow by placing the "milk and bread" staple items, like oil and air filters, in the rear left hand corner of the store.

"Studies show that consumers naturally turn to the right when entering a store. By placing the staples in the far left hand corner, we force the customer to walk through the entire store. While walking through the entire store, we hope he will come across products he needs but had no prior plans of purchasing," Bockelman said.

Green Light's retail program offers jobbers 3,000 SKUs across 118 lines of retail-oriented "out front" products in addition to the hard parts they already carry. The average Green Light store has 1,500 sq. ft. of store space that can accommodate about $23,000 worth of product in front of the parts counter. Green Light provides jobbers with planograms for the products. There is usually $17,000 worth of inventory in the back room.

Green Light encourages its jobbers to use cross merchandising techniques to create impulse sales. Some examples include displaying wiper blades next to windshield washer solution, chamois next to wax, funnels next to oil. "The beauty of impulse sales is that these products typically generate a very high profit margin. The profit margin on a funnel can easily overall design and organization of a store for profit," Paul Swanson, president of Clairson Commercial Display, Ocala, FL, said.

Ask yourself the following questions about your fixtures:

- Do your customers see fixtures rather than merchandise?
- Do your fixtures organize space and merchandise?
- Do your fixtures present excitement through variety?

If well planned, fixtures should provide a layered effect. This effect unfolds the merchandise to your customers as they walk through your store. It is accomplished through variety: Variety of gondola or fixture height, variety of fixture type, and variety of techniques. This prevents a store from looking boring and identifies merchandise categories for easier shopping.

Some of the most popular fixtures today are really fixture accessories, according to Swanson. These includes special racks that add display space onto endcaps and rolling basket dump-type displays that create instant focus points in the aisles.

ACCESSORIES
GAUGES
STEPPER
TRUCK-LIGHT-BAR

Miller/Zell

This prototype store shows how clear signage makes product easy to find and to buy.

Merchandising

Nothing, absolutely nothing, beats well merchandised products for creating shopping excitement and bringing in those customer dollars.

Remember that POPAI studies indicate that the average consumer will spend 15-20% more in a store that he perceives as well-merchandised. A well merchandised store is a store with a focused presentation. That means that every element of merchandise presentation from easy to read merchandise price tags, to merchandise location, to merchandise display is geared to making buying the products easy. You can find good examples of merchandise presentation in specialty clothing stores. Here the size tags are on the sleeves, the tags are big enough to be seen from several feet away, and all the tagged sleeves face the customers. No digging through racks of garments seeking tiny sewn-in labels. Coordinating tops and bottoms are hung together on four-arm racks. No wondering around the store looking for related merchandise. Would a customer looking for an product in your store find the merchandise presentation

STORE DESIGN: GONDOLAS & ENDCAPS

We asked our Retail Panel: "When you last changed to look of your store, did you do any of the following to your gondolas and/or endcaps?"

Install new gondolas?	66%
Raise the height of your gondolas?	17
Lower the height of your gondolas?	16
Move or re-arrange your gondolas?	58
Install new endcap fixtures?	47
Move or re-arrange endcap fixtures	28

Source: 1987 *Automotive Marketing* Retail Panel
Numbers may not equal 100% due to rounding and multiple answers.

STORE DESIGN: MERCHANDISING & DISPLAY

We asked our Retail Panel: "When you last changed to look of your store, did you do any of the following to your wall displays, light, and/or indoor signs?"

Install new (or update) wall displays for merchandise?	59%
Install new (or update) your lighting fixtures?	27
Install new (or revise) your in-store signs?	28
Change or establish your in-store color scheme?	92

Source: 1987 *Automotive Marketing* Retail Panel
Numbers may not equal 100% due to rounding and multiple answers.

Auto Saver Center

Green Light Auto creates traffic flow by placing "milk and bread" products like motor oil and air filters in the left rear corner of the store.

be 50%," Bockelman said. The technique of cross merchandising is not new, but most jobbers need to be reminded of how effective it is from time to time, Bockelman said.

The amount of product merchandised on a gondola is another important factor for increased sales. To prevent shoplifting, most Green Light gondolas have a 4' height limit so employees at the parts counter and cash register can clearly view customers.

But, "You obviously need to merchandise as much product as possible on a gondola without making it look cluttered and unattractive," Bockelman said. So, in addition to traditional gondolas and in addition to hanging products with standard pegboard display hooks, Green Light uses cross-bars and hooks and endcap extensions to creat more display space. Green Light uses a universal bracket on its gondolas to attach the cross-bars. They create as much as 28% more display space per gondola. New fixtures cost the average Green Light store about $7,500.

"Converting a store to the retail format is a very detailed operation," Bockelman said. "Merchandise is tagged as to product, stock number, stocking quantity, etc. We can supply professional stocking crews to the jobbers for the conversion. Stores that attempt the conversion on their own often wish later they hadn't," he said.

Green Light's retail-oriented products are priced at three different levels to produce between 32.5% and 38% gross profit for the jobber. "It's hard for a jobber to ignore that kind of profit margin," Bockelman said.

Which price level the jobbers use on specific products depends on how the competition is pricing similar products. "If our guy has a major discounter right down the street, we'll suggest he price at the 'A' level. At that level he is within 5 to 7% of the discounter's retail price on a product like a Fram filter. We'll try to keep him on the same price level as an Auto Shack or a Pep Boys with the same product," Bockelman said. If competition isn't that stiff, the jobber can use the "B" or "C" price scale and make a slightly higher gross profit.

The final phase of the Green Light turnkey conversion is advertising support. Typically, jobbers do not advertise or do not advertise to the greatest effect, Bockelman said. To help the jobber do a good job promoting his new retail look, an eight-page four-color newspaper insert is provided to the jobber from Green Light's in-house advertising department in Ft. Smith. As part of the conversion, the jobber and the regional Green Light representative choose between a nine times or 12 times a year advertising program.

By borrowing store designs, merchandising techniques, and product philosophy ideas used by other retailers, the Green Light jobbers have been able to increase their bottom line profits. The Green Light jobber conversion program is a success.

STORE DESIGN: CUSTOMER AMENITIES

We asked our Retail Panel: "When you last changed to look of your store, did you add any of the following customer amenities?

Music anywhere in your store?	31%
Make ashtrays available in your store?	29
Carpet in a special display area?	7
Carpet in a waiting area?	3
Chairs in a special display area?	5
Chairs in a waiting area?	6

Source: 1987 *Automotive Marketing* Retail Panel
Numbers may not equal 100% due to rounding and multiple answers.

this buyer-friendly?

And the same POPAI studies also indicate that 52.6% of all items are bought totally on impulse. Those impulse sales may be unplanned by your customers, but you must merchandise your store is such a way that you can grab those discretionary dollars.

Cross merchandising—putting related high profit margin items with other products (like funnels with oil, chamois with waxes, and flush kits with antifreeze/coolant) is a proven way to generate impulse sales in aftermarket retailing. But there are other merchandise techniques that can help boost those sales in your store to consider also. For instance:

- Have you taken advantage of manufacturers' package designs by letting the packages do a selling job for you? Manufacturers spend bundles to make their packages "silent salesmen," take advantage of that and show the packaging off to good effect.
- Have you presented the merchandise horizontally or vertically? Vertically color blocked merchandise takes less time for a customer to scan than a horizontal ribbon of color arrangement.
- Have you placed high ticket "want items" within the customers' direct line of sight, or do they have to bend down to see small items?
- Have you given the merchandise weight with bulk displays? Let your customers know your store is "the" place to buy oil, antifreeze, or other commodity items buy showing them how much you carry.

Today there are some technological breakthroughs that make merchandising more exciting and entertaining. Some of these include:

- Giant three dimensional graphics for your windows.
- Sound systems for mood music and promotional messages.
- Holography imagery where spokespersons are "beamed down" right in your aisles to talk to your customers.
- Computer displays and key boards to answer your customers' questions, to display product information, and to demonstrate product.

Remember, no matter where you merchandise the products you offer—on the floor, ceiling, walls, or endcaps, successful merchandising uses a clarity of presentation to promote, inform, and educate your customers about the products you carry and to induce them to buy those products.

How Often, How Much

Our experts say that good store design is a matter of constantly re-evaluating how your store looks compared to other stores. You should have a rotating schedule of basic maintenance jobs such as cleaning, sign maintenance, and endcap updating on a daily and weekly basis. Inside and outside painting and other major jobs can be scheduled on a yearly basis.

A complete design update should be planned for every five years unless special circumstances (such as new competition coming into your market area) make it necessary to do it sooner. Or, as Masover put it, "You need to re-design whenever the cash register stops ringing."

How much will this cost you? That depends. A simple "up-date the fixtures and add a fresh coat of paint" job will cost you about $10 per square foot. A more extensive re-design will cost you somewhere between $20 and $100 a square foot. But, as our experts have told us, it's the best money you'll ever spend. ■

FIRST THINGS FIRST

Realizing that not every retailer wants to, or can, tackle a whole store re-design at once, *Automotive Marketing* asked the experts what's the one thing an aftermarket retailer should do right off the bat to improve his profit picture. Their answers may surprise you.

- "If the interior is older, put on a fresh coat of paint. If it's not too old, take a close look at the lighting," Peter Carpenter of Miller/Zell Design Center, Atlanta, GA, said.
- "Examine what your competition is doing. You may not need a major re-design, just some updating. Use the Yellow Pages and get all the free information you can from store display firms," Paul Swanson of Clairson Commercial Display, Ocala, FL, said
- "Buy some light bulbs and a can of paint. Most stores are under-lighted and dingy. Just making the place brighter will help," Les Masover of Retail Store Planning Center, Lincolnwood, IL, said.
- "Clean it up. Good maintenance shows that you care. This carries through everything you do," Murry Gelberg of Gelberg & Co., New York, NY, said.

The experts also agreed that unless you have the budget to do everything all at once, it is fine to do a little bit of your store at a time. Just have a master plan on paper first, so the end results all point in the same direction.

STORE DESIGN: INSIDE MAINTENANCE

We asked our Retail Panel: "When you last changed to look of your store did you do any of the following inside maintenance jobs?"

Paint or otherwise change the walls?	55%
Paint or otherwise change the ceiling?	19
Paint or otherwise change the floor?	26

Source: 1987 *Automotive Marketing* Retail Panel
Numbers may not equal 100% due to rounding and multiple answers.

STORE DESIGN: OUTSIDE MAINTENANCE

We asked our Retail Panel: "When you last changed to look of your store, did you do any of the following outside maintenance jobs?"

Paint or otherwise change the outside of your store?	26%
Change or establish an outside color scheme?	21
Make any improvements to your parking lot?	16

Source: 1987 *Automotive Marketing* Retail Panel
Numbers may not equal 100% due to rounding and multiple answers.

STORE DESIGN: HOW SOON?

We asked the Retail Panel members who did plan to update or change to look of their store: "How soon do you plan to update or change the look of any part of your store?"

In Less Than One Years	51%
In 1-2 Years	24
In 6-7 Years	3
In 8-10 Years	3
In 10 Or More Years	3

Source: 1987 *Automotive Marketing* Retail Panel
Numbers may not equal 100% due to rounding and multiple answers.

STORE DESIGN: HOW WILL YOUR STORE LOOK?

We asked our Retail Panel: "Do you plan to update or change the look of any part of your store in the future?"

Yes	78%
No	22

Source: 1987 *Automotive Marketing* Retail Panel

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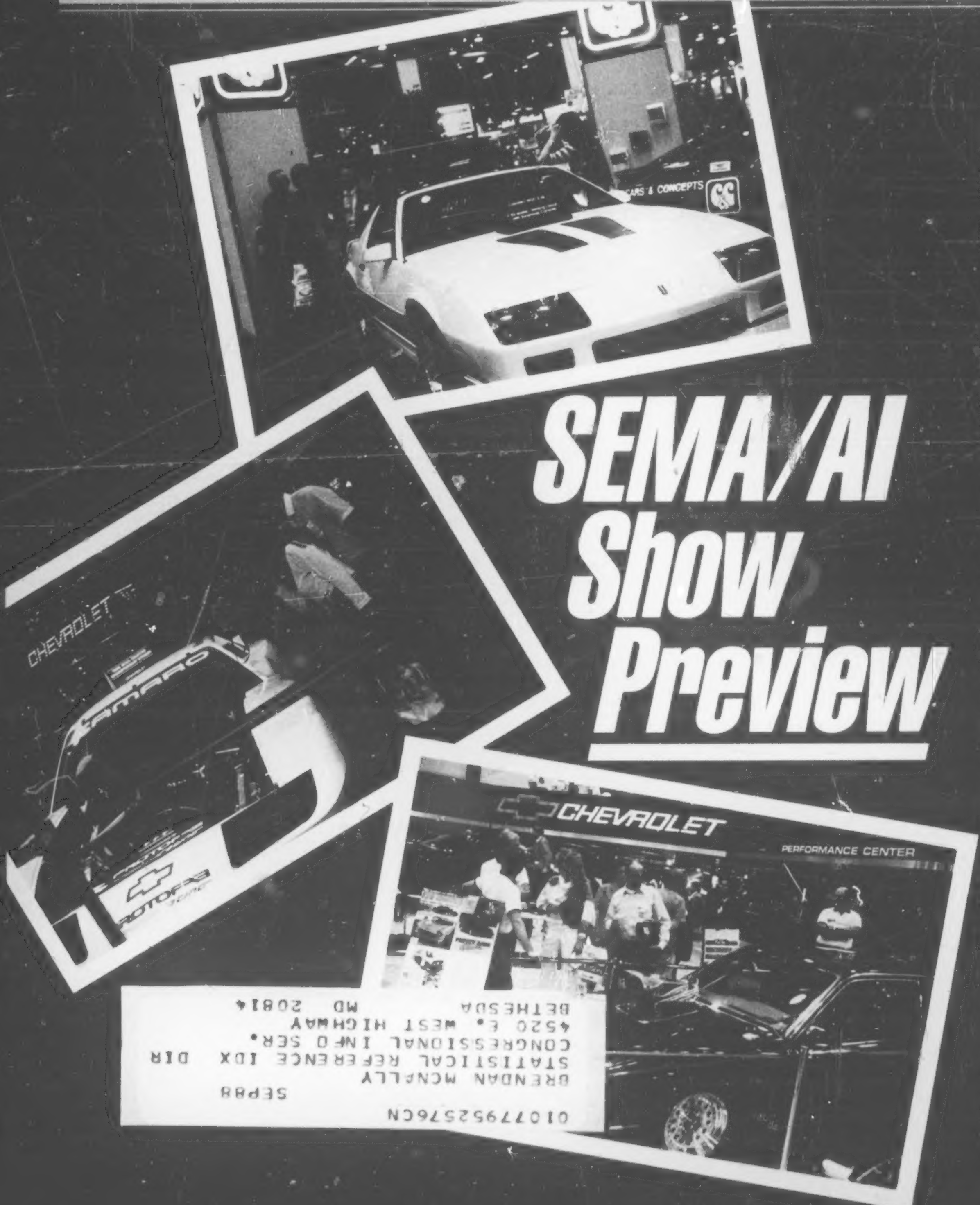
AUTOMOTIVE MARKETING

The Marketing/Business Magazine For The Retail Aftermarket
OCTOBER 1987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Go Or For Show,
There's A Market

Import Vehicle Business:
Sit Back And
Get A Bit,
Work Hard And
Get A Lot

Learning From The Competition:
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To Know
Who And What

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PUBLISHER'S NOTES

LOOKING AT NICHES

We work hard to help you find the most appropriate parts and service combination for your aftermarket operation.

In this, our SEMA/AI show issue, we've taken a look at specific opportunities.

Research Editor Philip Katcher investigates several kinds of performance (aka specialty) parts products.The performance market has changed since the muscle car days, but some customers still want to go fast. Others are content merely to look the part.

Contributing Editor Edward L. Kaufman says that retail chains will get some good business from import vehicle owners just by being there, but they can grab more by working hard at it.

Senior Editor Gail Krueger-Nicholson gives you a way to spot the competition, even when it doesn't look like competition, and learn about your own strengths from it.

Can retailers with service bays really sell Winter service for brakes? Contributing Editor David Evans votes yes, and tells managers how to set up the program.

Senior News & Feature Editor John Wirebach continues his insightful look at aftermarket commodities in Market Line. This month he looks at motor oil.

Look for APAA Show coverage in our Detailing The Market section this issue.

And . . . see you at SEMA/AI!

Sarah Frankson
Publisher

DETAILING THE MARKET

IN-STORE FOCUS

DOWNEY AUTO STORES
105 S. Creek Rd.
Chattanooga, TN 37406
(615) 622-6274
Stores: 120
Total Chain Sales: $35,000,000 (Est.)
Average SKUs: 15,000
Founded: 1976
Region Covered: Georgia, North Alabama, Mid-eastern Tennessee

DOWNEY AUTO STORES
WE'RE YOUR PARTS PROFESSIONALS
SHIFTERS
MUFFLER
AIR &

Downey Auto Stores' first delivery was a tailpipe in Boaz, AL.

Now the thriving franchise operation, with 120 stores in a three-state area, operates with 14 truck runs every day.

In 1984, the firm was acquired by AI Automotive, which is part of the AI International, a New York-based firm that's in turn part of the worldwide operations of the Alghanim Industries organization based in Kuwait (Persian Gulf).

It's a long way from Boaz to Kuwait, but Downey Auto Stores have managed to maintain their flavor and down-home identity through 11 years of changes.

The late Dick Downey, a no-nonsense businessman, came to Chattanooga from ITT Automotive Div. in 1976. He had gone to school in the area and liked it – and decided to start his own business with a Chattanooga base. Dick, a sales manager, and four sales people aggressively called on jobbers, patiently building a strong customer base through sheer drive and a belief in what they were doing.

Through a rented warehouse, the fledgling business sold only to jobbers. But a year later, the original management team started developing the concept that would become Downey Auto Stores. Within a year, some 20 stores joined the franchise program, drawn by the firm's strong will to succeed.

"A lot of firms offer a retail campaign, but not in a big way," explained Brent Windom, general manager and vice president/marketing, Southeast Region AI Industries. "We go to market with the biggest there is. We go up against any of the competition, but we also offer wholesale programs that are competitive."

As part of that philosophy, Downey underwent some major revamping a few years ago. "We always offered an inventory management system and a very aggressive advertising program, but never a turnkey retail program," said Windom. "Now we do it from beginning to end." The change came about because in 1982, with the onslaught of major retailers, such as Auto Shack, coming into its market, Downey needed to solidify its position as a major source for retailers. Accordingly, they made the signage and color schemes uniform, and went about changing from a rural identity to a major metropolitan force in the South.

"In the early 1980s, we probably had about 60 stores," said Windom. "Most of them were rural, with a mom-pop image. We changed their identity from this to being the name for auto parts, even in the small towns. Then we really penetrated the Atlanta market as well as Chattanooga. We spread out more in Chattanooga, and really went for Atlanta." (There are currently 32 stores in the Atlanta area.)

Despite the coalescing of signage, inventory and so forth, Windom insists that the stores are still very independent. "The support you get is based on the merit of your program," he said. "We offer TV and radio spots, color tabloids, and merchandising assistance. We're very aggressive in our promotions – probably the most aggressive in the South." The reason, says Windom: "We decided we wouldn't be undersold; we would meet the competition head on. That was less of a gamble than if we didn't meet them – they'd put us under."

The philosophy worked handsomely: Since the new campaign began, sales volume has increased 25-35% a year.

PROFILE: DIYers WHO OWN VANS

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study,* we look at DIYers who are van owners.

			Age					Income				Hours Per Month Spent On DIY			
Total	Male	Female	-25	25-34	35-44	45-54	55 +	-$20K	$20-30K	$30-40K	+ 40K	-1 Hrs	1-5 Hrs	6-10 Hrs	11 + Hrs
100.0%	78.6%	21.4%	2.0%	20.4%	37.8%	13.3%	26.5%	20.4%	23.5%	26.5%	29.6%	19.4%	54.1%	14.3%	12.2%

DETAIL

44%

of all U.S. households include at least one adult who follows motor sports at least occasionally, according to Fleishmann-Hillard, Inc., St. Louis, MO.

THE AUTOMOTIVE MARKETING INDEX

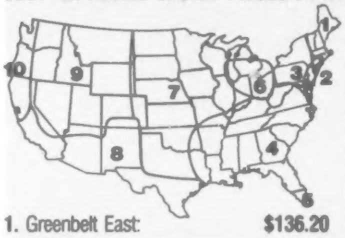
THE 1986-87 *AUTOMOTIVE MARKETING* MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index.The products include a non-resistor spark plug; an oil filter; a can of 10W30 motor oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

JULY 1987 NATIONAL AVERAGE MARKETBASKET PRICES

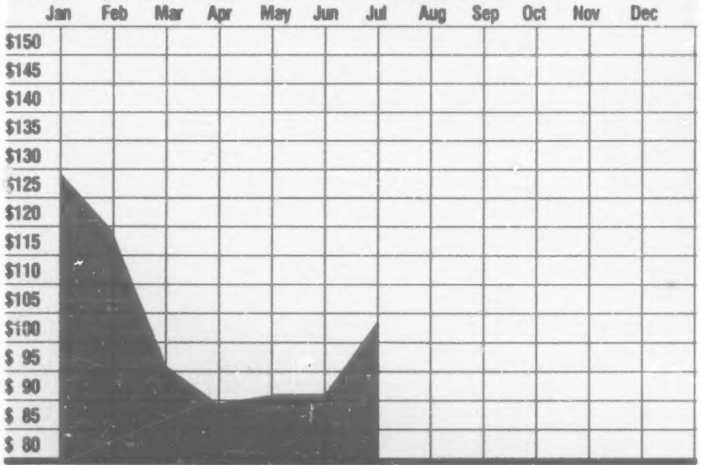
A non-resistor spark plug:	$ .72	A gas-charged shock:	$ 14.85
An oil filter:	2.31	One gallon of antifreeze:	3.50
A can of 10W30 oil:	.74	One pair of wiper refills:	2.41
A can of paste wax:	2.99	A 40-month battery:	31.16
An AM/FM/Cassette:	46.17	**Total:**	$104.85

JULY AM MARKETBASKET PRICES BY MARKETING AREA



		3. Smokestack East:	$ 87.99
		4. Old South:	102.75
		5. Caribbean South:	115.84
		6. Smokestack Central:	97.55
		7. Grainbelt Central:	98.46
		8. Spanish West:	92.75
1. Greenbelt East:	$136.20	9. Desert West:	104.85
2. Megapolis East:	88.71	10. Greenbelt West:	123.08

NATIONAL AVERAGE MONTHLY 1986-87 AFTERMARKET BASKET PRICES



AFTERMARKET BUSINESS INDICATORS

	Unit/Base	Mo/Q:	Current Period	Prior Period	Year Ago, Same Period	Low (61-87)	High (61-87)
Consumer Price Index	(67 = 100)	May	338.7	337.7	326.3	89.3 (May 61)	338.7 (May 87)
Prime Rate	%	Aug 7	8.25	8.25	8.00	—	—
Personal Consumption Expenditures (revised)	Billion $	1Q	2,854.3	2,820.4	2,697.9	328.5 1Q 61	2,854.3 1Q 87

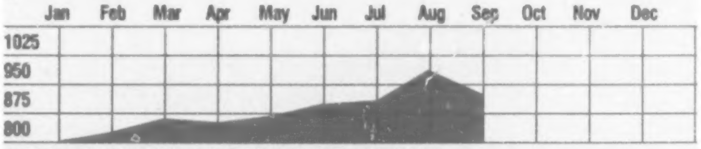
1987 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various aftermarket-related common stocks in various exchanges for the 52 week period prior to September9.

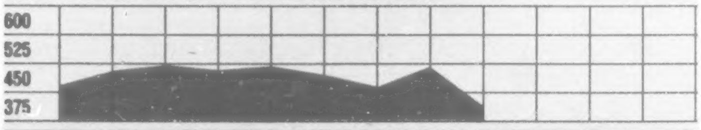
	Exchange	52-week High	52-week Low	9/9 Quote	P-E Ratio
Armor All	OTC	27 1/4	10 1/4	21 1/4	24
Audiovox	OTC	16	12 3/8	13 1/4	20
Cardis Corp.	AMEX	9 7/8	1 7/8	3 3/8	3
Champ Parts	OTC	12 1/4	3 1/2	10 1/8	46
Champ Spk Plg	NYSE	16 3/8	9 1/4	14 3/8	479
Crown Auto	OTC	4 1/8	3	4	—
Dana Corp.	NYSE	54 1/4	26 3/8	49 3/4	26
Durakon	OTC	14 1/4	9 7/8	12	15
Echlin	NYSE	25 3/8	14 7/8	17 5/8	17
Facet	NYSE	23 1/8	8 3/4	19 7/8	22
Genuine Parts	NYSE	44 3/4	26 5/8	39 1/8	23
Grand Auto	AMEX	25 1/4	14 3/4	15 5/8	130
Modine	OTC	22 3/4	11 3/4	22	—
Mr. Gasket	OTC	15	4 3/8	6 3/4	—
Prkr Hannfin	NYSE	42 1/2	23 1/4	40 1/2	22
Pennzoil	NYSE	95	53	67 3/8	44
Pep Boys	NYSE	18 7/8	11 3/4	17	29
Perry Drugs	NYSE	15 3/8	9 1/2	10 1/4	—
Quaker State	NYSE	31 3/4	21 7/8	24	—
Rite Aid	NYSE	46 1/4	26 3/4	38 7/8	20
Sealed Power	NYSE	39 5/8	23 1/8	36 1/4	14
Southland	NYSE	80 1/4	44	74 7/8	13
Stan Mtr Prod	NYSE	25 3/8	16 1/4	19 1/4	14
Superior Ind	AMEX	19 3/8	11 1/8	15 1/8	10
TBC Corp.	OTC	13 1/8	3 3/4	11 1/2	15
TRW	NYSE	70	48 1/2	60	18
Tenneco	NYSE	55 1/4	37 1/8	52 3/4	—
Tracor	NYSE	24 1/2	16 1/2	22 7/8	25
Trak Auto	OTC	19	11	17 1/2	55
Triad Systems	OTC	15 1/8	8 1/2	13 1/4	26
Witco	NYSE	47 3/8	31 1/8	38 5/8	13

DOW JONES 65 COMPOSITE STOCKS

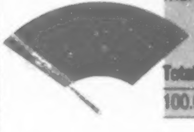
Dow Jones 65 composite stock and *AM's* 17 aftermarket stock price as of September 9.



AM 17 COMPOSITE AFTERMARKET STOCKS



PRODUCT OF THE MONTH: WINDSHIELD WIPERS



Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study*, we look at the individuals who purchased and installed windshield wipers during a 12-month period.

			Age					Income				Hours Per Month Spent On DIY				Number Of Cars Responsible For		
Total	Male	Female	-25	25-34	35-44	45-54	55+	-$20K	$20-30K	$30-40K	40K	-1 hr	1-5 Hrs	6-10 Hrs	11+ Hrs	1	2	3 or More
100.0%	72.0%	26.0%	13.9%	30.7%	23.4%	14.1%	17.5%	25.0%	18.4%	17.8%	25.3%	20.3%	58.6%	11.1%	7.8%	36.0%	37.7%	26.4%

MARKET LINE

Motor Oil: Another Year, Another Highly Competitive Market In 1988

"Leaders should be leaders and set price floors," an angry oil company man said, discussing the oil market. "If business is not as profitable as it should be, let's establish a price and stick with it. No other industry has the kind of competition the oil industry has. There's always one guy undercutting everybody."

Freely translated, this means intense price competition and rebates will continue in 1987 and 1988 motor oil selling. Consumers will still find oil selling as low as 39-cents a quart in chain and discount stores. And that's where roughly 60-70% of motor oil is sold.

NUMBER OF SERVICE STATIONS BY OIL COMPANY

While oil companies do not directly own all the stations selling their gas, these are approximately the number of service stations selling a particular brand of gasoline and motor oil.

Company	Number Of Stations
Texaco	18,700
Chevron	18,600
Exxon	17,400
Mobil	13,300
Shell	11,100
Unocal	10,800
Phillips 66	10,500
Sohio	7,900
Citgo	6,400
Conoco	6,300

Source: *Automotive Marketing* estimates

About 665 million gallons of oil was sold in 1986 for retail distribution (chiefly in stores and service stations), according to the National Petroleum Refiners Association. The great majority of this oil goes for cars and light trucks. The best selling grade remains SAE 10W-40 with 266 million gallons sold.

Previous oil sales don't lead to great expectations. Oil sales in 1986 were well above 1985 sales of 610 million gallons but barely above 1984 sales of 654 million gallons. However, since 1980, oil sales have increased, on the average, about 15 million gallons a year.

The oil people we spoke with put annual growth at about 1-2% or 7-14 million gallons. Indeed, some oil executives expect even less growth due to smaller crankcases and less consumption per vehicle. Thus, to obtain a major gain in market share, a company must steal it from another.

Six companies—Pennzoil Products Co., Houston; Quaker State Corp., Oil City, PA; Valvoline Oil Co., Lexington, KY; Castrol Inc., Wayne, NJ; Texaco Refining and Marketing (Havoline brand), Houston; and Kendall Refining Co., Div. of Witco Corp., Bradford, PA—dominate the retail market. Competition among them is bitter.

On top of this, there is also competition from major integrated oil companies: Chevron USA, San Francisco; Exxon Co. USA, Houston; Mobil Oil Corp., Fairfax, VA; Shell Oil Co., Houston; Citgo Petroleum Co., Tulsa, OK; Sun Refining And

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MARKET LINE

Marketing Co., Philadelphia; and Phillips 66, Bartlesville, OK. We call these integrated companies because they take oil from the ground to the end user. The retail companies, except Texaco, actually buy much of their base stock from the integrated companies.

If you add Texaco to this second group, the seven integrated companies control over 100,000 gasoline service stations. Naturally, the integrated oil companies are primarily concerned with gasoline sales. Oil is only a by-product of gasoline refining. A barrel of crude produces about 2 *quarts* of oil and 20 *gallons* of gasoline. When there is more oil than they need to serve the branded stations, they can dump huge quantities of oil into the retail market at bargain prices.

THE LARGEST FAST LUBES

Although these are the largest fast lubes in terms of outlets, there are roughly 1,800 independent outlets. Oil companies expect to see many of these independent operations swallowed up by the larger operations in the next few years.

Chain	# Of Centers
Jiffy Lube (Independent)	650-plus
Minit-Lube (Owned By Quaker State)	220-300
Rapid Oil Change (Owned By Valvoline)	100-plus
Grease Monkey (Independent)	90-100
McQuik (Independent)	50-60

Source: *Automotive Marketing* estimates

As one retail oil company executive noted, that strategy "increases the price of poker for all of us. Say we want space on a key flyer from a retail chain. The cost can be prohibitive because a big oil company wants to dump oil. They can take a splash and move back. It's guerrilla warfare. Hit and run."

One retail oil company executive said a major chain recently was offered $400,000 up front by an integrated oil company. " 'All you have to do is add our product to your shelves,' the retailer was told. The retailer wanted us to meet the offer or lose shelf space," the executive said. "I told him, he's gonna be here today. But what about ten years from now? We've been selling retail for 30 years. They're fair weather marketers."

This may not always be true. For one thing, the retail oil companies have entered the installed market through fast lube operations. Quaker State, Valvoline,

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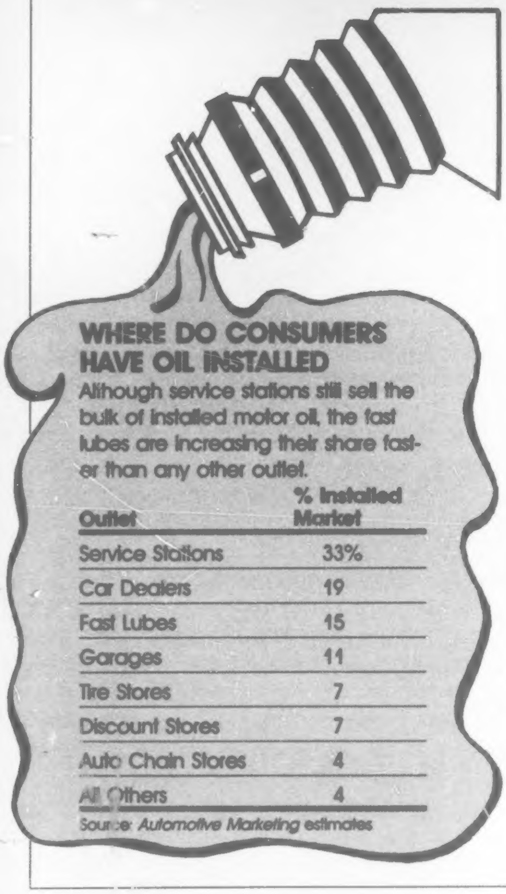

WHERE DO CONSUMERS HAVE OIL INSTALLED

Although service stations still sell the bulk of installed motor oil, the fast lubes are increasing their share faster than any other outlet.

Outlet	% Installed Market
Service Stations	33%
Car Dealers	19
Fast Lubes	15
Garages	11
Tire Stores	7
Discount Stores	7
Auto Chain Stores	4
All Others	4

Source: *Automotive Marketing estimates*

and Kendall all own or co-own fast lubes. Pennzoil is the leading supplier to the fast lube industry (about 50-55% of fast lube sales), and is one of the primary reasons for the success of Jiffy Lube, the largest fast lube operation (almost 700 centers). The fast lubes presently own at least 14-16% of the installed market (several companies think it's closer to 20%) and are rapidly increasing this share mainly at the expense of service station sales.

For another, several integrated oil companies are showing signs of a long-term interest in the DIY market. Texaco, for example, recently created a separate retail division to sell oil and antifreeze. And Exxon was at the APAA Show in force with spokesman John Madden, five sponsored race car drivers, a new red bottle, a single Superflo name for all its oil, and a annual $15-20 million long-term advertising commitment. Other integrated companies such as Shell with Fire and Ice, and Mobil with Mobil-1, are attempting to position their products as premium oils. And, Chevron has made some gains on the West Coast.

The result might be an even more competitive market, if that's possible. Quaker State and Pennzoil have long been the industry leaders at about 18-22% each. Quaker State is usually just a tad ahead. Quaker State is stronger East of the Mississippi, while Pennzoil is stronger West of the river. In the past year, however, the feeling is unanimous that Pennzoil is now number one.

"Pennzoil is the Coca-Cola of motor oil," one competitor said. "They run consistent hard hitting promotions. They're strong and conservative. Nothing flashy." Pennzoil's on-the-bottle rebate was a fine attempt to eliminate the coupons retailers dislike. In addition, the company prospers from its fast lube dominance. At the same time, competitors said, Pennzoil tends to be inflexible in its negotiations. "You do it the way we want. If you don't want us, we'll sell the guy across the street," was the way one competitor described its attitude. "They have such a strong customer base," another said, "they can concentrate on pull-through selling. The rest of us have to push our product through. But being number one can lead to complacency."

Competitors said that complacency may have hit Quaker State in the last

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The Kendall Refining Company, a Division of Witco Corporation, offers retail promotion allowances to all qualified retailers, regardless of size, who feature Kendall branded products in their advertising. Kendall will pay up to 100% of advertising space or time costs for standard advertising at the rate of 10¢/gallon of eligible products. In addition, a special new store Grand Opening Allowance is available if Kendall products are featured during the grand opening period. All claims must be substantiated by proof of purchase and proof of performance.

If you wish more information on these and other Kendall products and programs, send your name and address to Kendall Refining Co., Division of Witco Corporation, Bradford, PA 16701. Attn: Advertising Dept. Or you may call Andy Maurey at Kendall, at (814) 368-6111.

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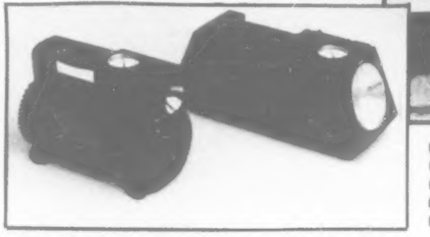

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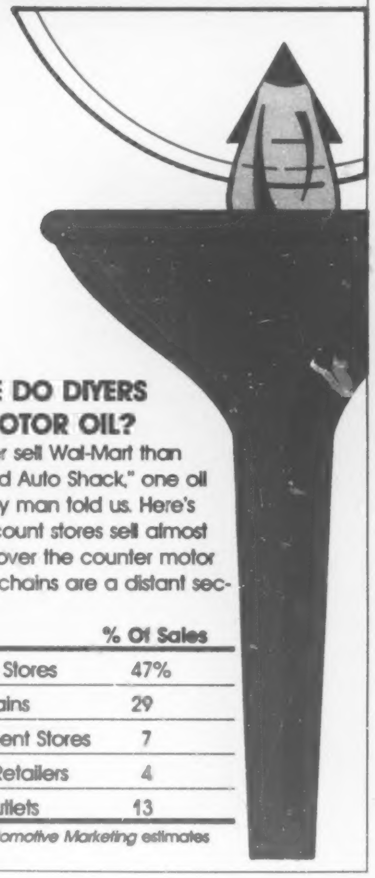
year. "There's a tendency to rely on the things that made you strong," a competitor said. "But the market is dynamic. Sometimes the girl you bring to the dance is not the girl you go home with. Quaker chose the wrong strategies." Last year the company attempted to take a high road toward prices and suffered from opponents' pricing competition. This year, it will be back with better retail programs and advertising. Quaker State enjoys wonderful brand acceptance, a good advertising program, and a history in the retail market.

Two companies—Valvoline and Texaco Havoline—are also running neck and neck for third in the 11-14% range. Both are aggressive companies.

Valvoline gets mixed reviews from its competitors. Currently, Valvoline is offering consumers a $5 rebate on 12-quart cases, a strategy that takes the consumer out of the market for a long time. Competitors said it does an excellent job with ads. It is also pushing its Rapid Lube operation (about 100 locations). However, competitors said Valvoline is too dependent on specials and rebates to sell product. They also question the company's loyalty to its distributors.

Texaco made great gains in the last few years simply by pricing below everyone else. At times, its daily price was 20-cents under other brands. "You have to get your stuff on the shelves, no matter what it costs," a competitor said. "You can advertise all over the place, but you have to make sure the consumer can buy it." Whether the company can sell at retail with a non-special price has yet to be seen, according to competitors. Still, Texaco has over 18,000 service stations, a pot of money, and it is the only integrated oil company to have a real share of the retail market.

There are two other retail oil companies with significant market shares. Castrol has made astounding gains over the last five years by creating a niche in the market. Castrol identified the four-cylinder market in the late 1970s and pushed its special small engine oil to about an 8-10% share of market. Kendall, after 106 years, is one of the oldest companies in the oil market. Although it only has a 4-6% market share, the company has about 300 distributors and is loyal to them. It is strong in the Midwest and fleet sales.



WHERE DO DIYERS BUY MOTOR OIL?

"I'd rather sell Wal-Mart than Chief and Auto Shack," one oil company man told us. Here's why. Discount stores sell almost half the over the counter motor oil. Auto chains are a distant second.

Outlet	% Of Sales
Discount Stores	47%
Auto Chains	29
Department Stores	7
Jobber Retailers	4
Other Outlets	13

Source: *Automotive Marketing* estimates

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Perhaps 15 other companies compete in the market. We might note Citco with its guaranteed sales to Chief Auto, or Phillips 66 and Conoco, Houston, which are both regionally strong in the Plains states. That leaves the major integrated oil companies, all with less than 5% market shares. Still, the retail oil companies watch them closely. At any time, any one of the integrated companies could use its vast resources to flood the retail market, particularly now that the fast lubes are making serious inroads in the installed market. When we asked a retail oil company man whether he thought Exxon would stay in the market long term, he said, "I hope not. They're the one we're concerned with."

But these companies have internal problems. As one huge oil company's retail chief said, "A company devoted solely to consumer oil sales looks at the business differently. We make more money on volume (barrel) sales. So we have to sell the board of directors on retail. And when you get a one-tenth of a percent increase in market share after spending $20 million, that's a hard sell. All we can say is that you won't see the value immediately. It may be three or four years down the road. Our market share may not change one iota in 1987. They have to understand that."

The real question will be the impact of the fast lube market. Several companies think a shake-out is in the works. It's hard to find economic locations, the zoning process is difficult, and good employees are hard to find. At least one company advertises in food service magazines for managers. "Why not? Fast food people are used to servicing the public, dealing with traffic, and systems controls. Plus, the opportunities no longer exist in fast food." If the fast lubes continue to take sales away from service stations, companies with service stations will be forced to either emphasize retail sales or simply buy a fast lube operation.

For the next year or two, the oil market will not see any changes. Everyone hates rebates, but in a flat market they will continue. One good promotion can mean a very successful quarter. The retail oil companies are all trying to establish a premium oil but with little success, so far. The integrated oil companies will continue to dump oil and keep prices low in a search for market share.

All in all, it's more good news for the consumer, and bad news for increased profits. ■

Market Update: Exide Claims #1 Position

Johnson Controls Battery Div., Milwaukee, WI, has long dominated the battery market with only three major customers: Sears, Interstate, and NAPA.

But at the recent APAA Show, Art Hawkins, president and CEO of Exide Corp., Horsham, PA, announced Exide had obtained all NAPA business (over two million batteries a year, according to Exide) and was now the number one battery supplier. Earlier this year, Exide doubled its market share by purchasing General Battery. With the NAPA deal, Hawkins said Exide now enjoys about a 30% market share.

Hawkins and executive vice president

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WORKING FOR IMPORT PROFITS

A certain amount of increased import product sales will come to those who simply wait. More sales will go to those who aggressively go after that market.

by **Edward L. Kaufman,**
Contributing Editor

Chain stores are positioning themselves for faster growth in the import aftermarket—and they really don't have much choice about the matter. Quoting *Automotive Marketing's* article on globalization in the August 1987 issue (The Aftermarket Gets MORE Complex), "...considering the possibility that domestic production may account for only 56% of new car sales in the United States in 1989, serving the import car aftermarket is more than opportunity...it represents *survival!*"

Chain stores which participate in the automotive aftermarket—this includes food/drug/hardware retailers as well as mass merchandisers and automotive chain stores—obtain *some* sales growth from the import aftermarket without really trying. That is, they gain through the sales of "universal" DIY products such as chemicals, batteries, and accessories. Owners of Saabs and Subarus are as likely to patronize chain stores for these items as are owners of Fords and Chevrolets.

The dollar volume of these sales can be

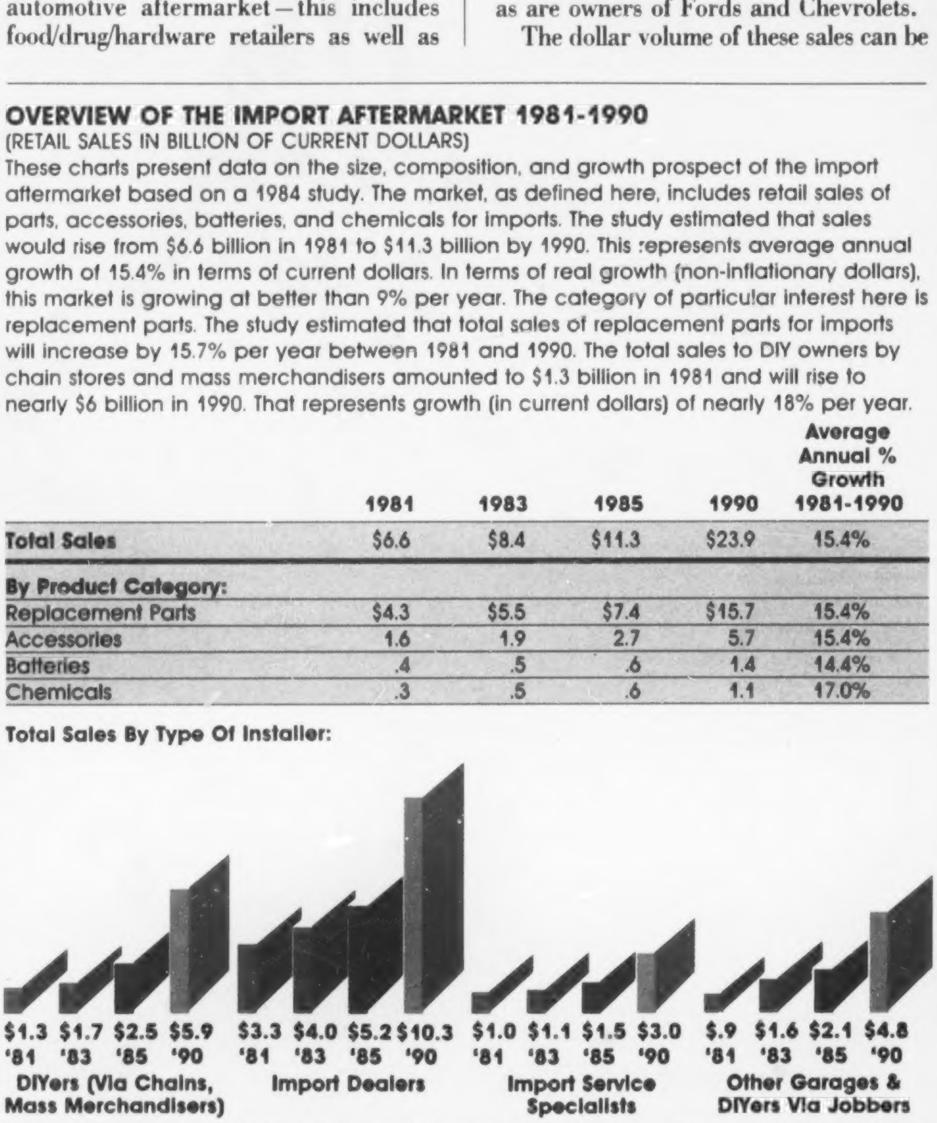
OVERVIEW OF THE IMPORT AFTERMARKET 1981-1990

(RETAIL SALES IN BILLION OF CURRENT DOLLARS)

These charts present data on the size, composition, and growth prospect of the import aftermarket based on a 1984 study. The market, as defined here, includes retail sales of parts, accessories, batteries, and chemicals for imports. The study estimated that sales would rise from $6.6 billion in 1981 to $11.3 billion by 1990. This represents average annual growth of 15.4% in terms of current dollars. In terms of real growth (non-inflationary dollars), this market is growing at better than 9% per year. The category of particular interest here is replacement parts. The study estimated that total sales of replacement parts for imports will increase by 15.7% per year between 1981 and 1990. The total sales to DIY owners by chain stores and mass merchandisers amounted to $1.3 billion in 1981 and will rise to nearly $6 billion in 1990. That represents growth (in current dollars) of nearly 18% per year.

	1981	1983	1985	1990	Average Annual % Growth 1981-1990
Total Sales	$6.6	$8.4	$11.3	$23.9	15.4%
By Product Category:					
Replacement Parts	$4.3	$5.5	$7.4	$15.7	15.4%
Accessories	1.6	1.9	2.7	5.7	15.4%
Batteries	.4	.5	.6	1.4	14.4%
Chemicals	.3	.5	.6	1.1	17.0%

Total Sales By Type Of Installer:



Source: Excerpted from the 1984 Frost & Sullivan study "Import Car Aftermarket." Numbers rounded to billions of dollars. The columns above do not add precisely to total.

IMPORTS AND ACTION AUTO

In Flint, MI—where GM makes Buicks and headquarters its vast parts distribution network—registrations of foreign make vehicles are rising. Only 9% of the total vehicles were imports in 1984, but they have risen to 13%, an increase of 44%.

In order to meet the growing demand, the Action Auto chain in Flint uses a two-pronged approach. Where possible, it stocks from its "American" suppliers. In addition, it buys Import Car World, the retail carded line from Worldparts, an import specialist. The chain only stocks such fast moving items as ignition and bolt-on parts, including starters, alternators, and water pumps.

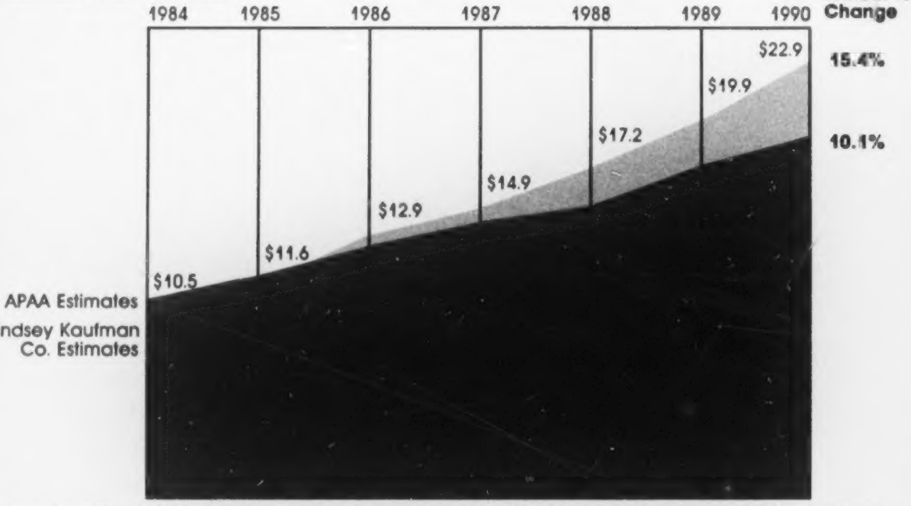
To heighten consumer awareness, Action Auto has set aside sections in its stores devoted to imports.

Edward L. Kaufman is president of Lindsey-Kaufman Co., a marketing consulting firm specializing in the automotive and truck aftermarkets. Inquiries for additional information should be sent to him at: Lindsey-Kaufman Co., 53 Hamilton Place, Tenafly, NJ 07670, (201) 567-6158.

WORKING FOR IMPORT PROFITS

COMPARISON OF ESTIMATES ON THE IMPORT AFTERMARKET
(RETAIL SALES IN BILLION OF CURRENT DOLLARS)

APAA released data that states the import aftermarket reached $10.5 billion in 1984 and would rise to $17 billion in 1989; that represents growth of 10.1% per year. Projected to 1990, the APAA data indicates a market of $11.6 billion in 1985 rising to $14.0 billion in 1987. The Lindsey Kaufamn Co. estimates $11.2 billion in 1985 rising to $14.9 billion in 1987. After 1987, the estimates diverge considerably but considering unknowns like the inflation rate, it can not be argued that the present estimate of $22.9 billion in sales in 1990 is likely to be more accurate than the $18.7 billion figures for that year indicated by the APAA data. So there appears to be an informed consensus that the 1987 market for import car parts and accessories is in the range of $14-15 billion—and growing much faster than the aftermarket as a whole.



Source: The 1984 APAA study "The Dynamics Of The Import Car Aftermarket" and estimates from the Lindsey Kaufman Co.

IMPORTS AND CHIEF AUTO

In Dallas, Chief Auto is in the midst of re-evaluating its program for imports. The company has established criteria for import programs and has written to all of its current vendors asking how they match up to the criteria.

Chief has two major divisions, one in Texas and the other in California. In both areas import parts have their own gondolas. Of course, registrations of imports are higher in California than in Texas, and this affects both inventory policies and sourcing practices for the two divisions. Chief supplements coverage of its domestic suppliers by means of parts purchased from a specialist, IAPCO. This importer-distributor offers a complete line in both breadth of coverage and depth of inventories. The IAPCO line is stocked more deeply in California than in Texas.

Regarding accessories, Chief's policy is not to differentiate between domestic and import applications. "An accessory is an accessory."

Chief Auto has been told by some of its suppliers that it is doing better on sales of import parts than its competitors. Nevertheless, Chief's management is far from complacent. The company's marketing director, Kent Stickley, said, "The feeling here is that we are doing well, but are we getting all that we can? As business grows, we want our fair share."

very significant. For example, estimates on batteries alone are that owners of imports bought $400 million worth of replacement batteries in chain stores in 1983 and will buy nearly $1.2 billion worth in 1990. Estimates on accessories are that chain stores will retain a 23% share of the purchases by DIY import owners. The growth of the import aftermarket is such that *with no change in market share* this will mean sales of $1.3 billion in accessories for the chains in 1990 as compared to less than $450 million in 1983. The prospects for increases in sales of chemicals (waxes, anti-freeze, additives, etc.) to import owners is equally good: Over $930 million in 1990 versus less than $370 million in 1983.

Fantastic Growth Possible

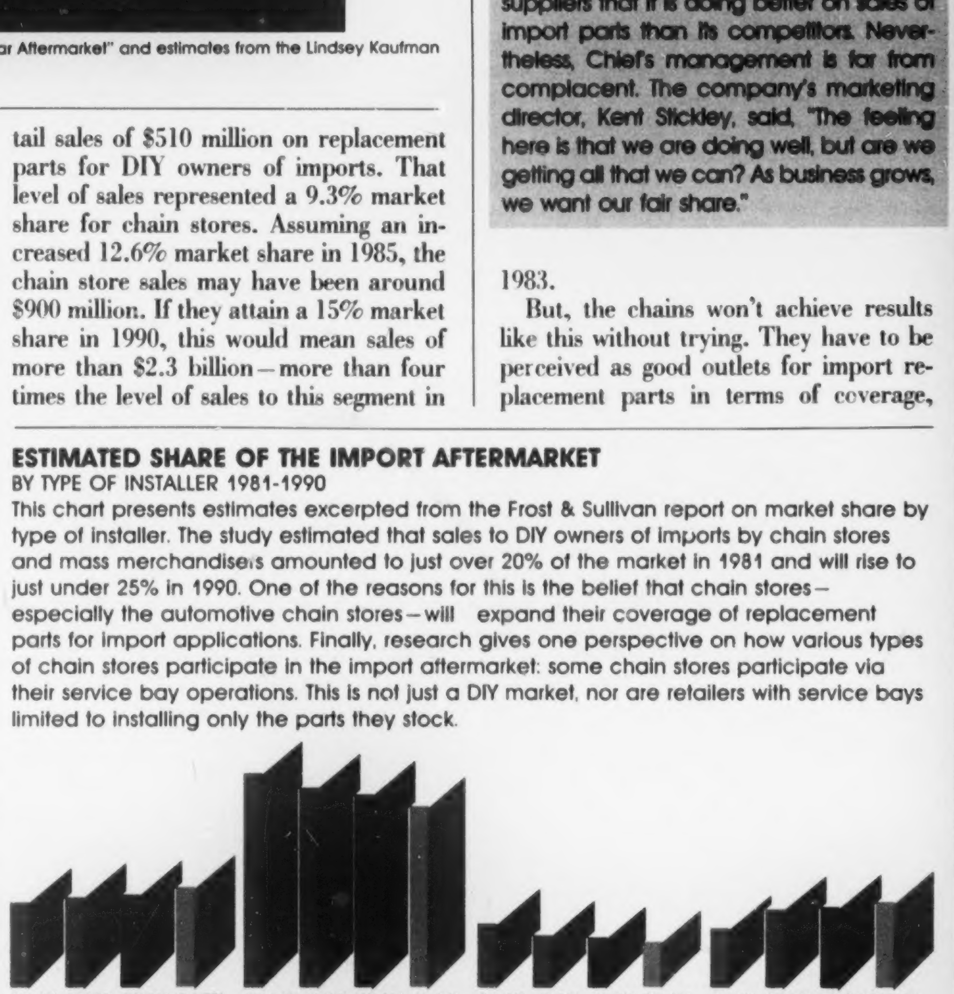
Fantastic growth! And that is without really trying—without any special program to attract import owners, or to tailor inventories to their needs. The real questions about the import aftermarket for the chain stores have to do with the markets for replacement parts and services. At this time, there are no estimates available on the chain stores' stake in the market for import service. However, the sales potential for chain stores in the market for replacement parts (assuming they move aggressively to increase their market share) is staggering.

A 1984 Frost & Sullivan study estimated that in 1983 chain stores obtained retail sales of $510 million on replacement parts for DIY owners of imports. That level of sales represented a 9.3% market share for chain stores. Assuming an increased 12.6% market share in 1985, the chain store sales may have been around $900 million. If they attain a 15% market share in 1990, this would mean sales of more than $2.3 billion—more than four times the level of sales to this segment in 1983.

But, the chains won't achieve results like this without trying. They have to be perceived as good outlets for import replacement parts in terms of coverage,

ESTIMATED SHARE OF THE IMPORT AFTERMARKET
BY TYPE OF INSTALLER 1981-1990

This chart presents estimates excerpted from the Frost & Sullivan report on market share by type of installer. The study estimated that sales to DIY owners of imports by chain stores and mass merchandisers amounted to just over 20% of the market in 1981 and will rise to just under 25% in 1990. One of the reasons for this is the belief that chain stores—especially the automotive chain stores—will expand their coverage of replacement parts for import applications. Finally, research gives one perspective on how various types of chain stores participate in the import aftermarket: some chain stores participate via their service bay operations. This is not just a DIY market, nor are retailers with service bays limited to installing only the parts they stock.



Source: Excerpted from the 1984 Frost & Sullivan study "Import Car Aftermarket." Numbers rounded to billions of dollars. The columns above do not add precisely to total.

WORKING FOR IMPORT PROFITS

IMPORTS AND NATIONWISE

In Columbus, OH, Nationwise reports a slight increase in sales of parts for imports and, in the opinion of buyer Craig Butt, this is largely the result of new programs, that is, additional lines of parts. Each of the stores devotes 8' to 16' running feet of gondolas to import parts.

Butt feels that the import parts market in Nationwise territory is now maturing with imports finally reaching the repair stage in significant numbers.

Nationwise uses more than one approach to the problem. It stocks an IAPCO line which is very broad and deep. In addition to carrying many fast moving items, Nationwise has a special order program with limitless possibilities. For example, a customer can special order a ball joint for a Jaguar. Nationwise also has integrated import parts into such lines as exhaust and ride control (Walker and Monroe).

In the way of accessories, car masks (bras) are very popular but are supplied by a vendor which also manufactures for domestic car applications.

IMPORTS AND AID AUTO

In the New York metropolitan area, the Aid Auto Stores serve import country. This is reflected in Aid's sales: approximately 30% of its parts sales are for import applications. As Aid finds increased coverage on applications from its main domestic suppliers, it is reducing its dependence upon specialists. Aid used to buy MPA's complete line, including water pumps, disc brake pads, etc. Aid now buys import disc pads from its domestic brake parts supplier and found a new (domestic) supplier for water pumps—including import applications.

Does this mean that specialist suppliers are going to fade away? They are too resourceful for that. When MPA found itself unable to compete on water pumps and disc pads, it dropped them from its program. On the other hands, it strengthened its ignition wire program, going from a semi-universal with 12 SKUs to a more custom line—which Aid has added.

Aid had considered changing specialist lines. However, in order to get the best price, Aid would have had to stock 2,000 SKUs.

Jimmy Meyers, Aid's parts buyer, figures he can get coverage on most of these items from domestic suppliers. Thus, Aid has added front end parts from Moog, brake parts from Perfect Parts and rotors from Aimco. This approach is more attractive to Aid in terms of turnover than stocking a strictly foreign line.

In a pattern which is quite typical for the aftermarket, Aid stores have import sections which display the carded items (especially ignition parts). The bulkier and slower moving hard parts are stocked behind the counter.

IMPORTS AND YOU

Here are some questions chain stores typically ask about the import aftermarket.

- Do I need to have separate sections for import parts?

The answer to this question is dependent upon consumer perceptions. When we get to the point where consumers view all vehicles, regardless of origin, as vehicles—including Hondas built in Marysville, OH, as well as Chrysler nameplates built in Japan—there will be no need for separate sections. Then, vehicle owners will look for brake parts in the brake part section and water pumps among water pumps. But, we are not there yet. So, as long as owners view their vehicles as "special," they will expect treatment. This means, for the time being, gondolas devoted to import parts.

- To what extent can I source via domestic suppliers?

Conversely, chains are asking, "To what extent should we source from specialists?" Practically speaking, the answer to that question is likely to change on a weekly or monthly basis. That is, domestic parts manufacturers are extending their coverage to the most popular makes of foreign nameplate applications.

Will there continue to be a place for specialists in the market? No doubt of it. The reason, very simply, is that many millions of Americans prefer not to own or drive mass market vehicles. Specialists will be needed to stock parts for the lower registration vehicles. What they lose on business for VW and Honda may be off-set by business on Merkur Xr4Ti or other "hot" items still on drawing boards.

- Do I have the expertise to service imports?

The answer to that very simply is, "If you don't, you ought to get it pretty quick!" You can no longer be an installer who turns away work because it happens to be on a foreign name plate vehicle.

The problems here seem to be that 1) Mechanics tend to be innately conservative and fearful of tackling anything unfamiliar—which means they need training, and, 2) The managements of many chain stores don't know enough about service to either tell the mechanic to get on with the work or to get them the training.

prompt availability, convenient hours, competitive prices and knowledgeable, helpful personnel.

The chain stores are aware of this and they are reconsidering what it takes to be a successful retailer of parts to import owners. This involves reviewing parts inventory policies in the light of the latest data on import registrations, and re-evaluating their approaches to sourcing parts.

In general, the stores prefer to buy their parts for imports from the same manufacturers who supply them with parts for domestics. From the chain store point of view it is a pain, frankly, to have to deal with long lists of suppliers. Ideally, they would prefer to buy all of their shock absorbers from the same one or two manufacturers. Similarly, with ignition parts, brake parts, etc. But, in fact, manufacturers for domestic vehicles have voids in their programs which have created opportunities for importer-distributors of replacement parts.

Import Trends

Trends in the import aftermarket are hard to follow because of shifts over time by demographics and geographic area. For example, it was once possible to think of the import market as a market of specialities: expensive toys for the rich and sub-compacts for thrifty avant garde types. Today, Toyotas, Hondas, and Nissans are bought in vast numbers by the same "middle-Americans" who used to buy Chevrolets and Fords. The import market used to be thought of as primarily a *coastal* market; that is, high registrations along the Atlantic seaboard and the West Coast, fairly substantial registrations near Great Lake and Gulf ports—but a big void in the South, Central and Mountain states. But, the fact is that registrations of foreign-made vehicles are rising everywhere in the U.S.—and they are rising fastest where they had once been weakest: the Midwest and Southern states.

Chain stores appear to be changing their approaches to the import aftermarket, depending upon whether they are in a maturing or fast-growth market for imports. Where registrations of imports have been above the 30% for some time, as in West Coast, Northeast and Mid-Atlantic states, the chains have traditionally been important customers of specialist distributors such as IAPCO, MPA, IAP and Import Car World from Worldparts. Now, seeing wider coverage of import applications by their mainstream domestic suppliers, they are moving toward reducing purchases from the specialists.

At the same time, however, import specialists are finding opportunities for growth in the markets in which registrations of foreign-makes have only recently begun to rise. In those markets, chain stores acknowledge a need for help in creating import parts sections. Specialists are responding with advice on coverage, special order programs and the packaging and display material which make the statement that, "we have import parts!" ■

PERFORMANCE FILLS A NICHE

It isn't the great days of the muscle cars any more, but sales of performance products can help overall sales.

by **Philip Katcher,** Research Editor

The good old days of hot rods and muscle cars—those big V8-engined cars that cruised the streets in the 1950s and 1960s—are gone. The double knockout punches of gas shortages and governmental environmental and safety regulations have made those good old days a thing of the past. Even so, there is still a sizeable market for today's performance parts—and, it's a key DIY market.

Indeed, experts state that car owners spend as much as $3 billion annually on performance parts. And, said a spokesperson for a company that manufactures high performance shock absorbers, "I see the performance market as rapidly growing. It's not so much that it's getting larger, but that people now have a much greater tendency to upscale the products they buy today compared to what they did in the past."

Where, what, and how performance dollars are spent have changed radically over recent years. More of the total dollars spent are now being spent on the OE level. Vehicles are more and more difficult to modify, because of both technology and governmental regulations. The three major U.S. auto makers expect to sell some $50 million this year in performance parts and accessories alone. Ford expects to sell some $12.2 million worth of performance parts in 1987 at the factory level.

Much of the OE sales comes from products which are difficult to retrofit. Turbochargers, for examples, have come from virtually nowhere to become a major performance item on many new cars. In fact, the Motor & Equipment Manufacturers Association (MEMA) predicts that by 1990 nearly a million new cars could be sold with turbochargers.

The Changing Retail Market

When the change in the market began, some smaller high performance retailers who relied totally on the high performance market found that they had to either hang tough, close their doors, or diversify their product lines: their market had become as narrow as their profit margins. Many survived without any real problems because they were in the right market area and, as the larger chains dropped high performance lines, they increased their stock.

While some specialist performance stores changed their postures, so did many of the broad-line hard parts jobbers. Many of them removed "wholesale only" from their signs. They began to see the large DIY involvement in performance (one performance shock absorber company believes some 80% of its sales go to DIYers). They welcomed DIYers with an open cash register. Some moved their counters back and installed gondolas filled with aftermarket products and DIYer books. And some began to take on performance lines. They became new sources of supply for frustrated high performance customers who could not get the right products from their usual suppliers and who didn't want the bother of dealing through the mails.

At the volume retail store local level, however, the market has continued to be admittedly a minor part of total overall sales. Avis Cox, Secretary-Treasurer of Cox Auto Supply, Yankton, SD, boasts, "We have been known in this area for performance parts since 1964." Even so, only some 10% of the company's total sales comes from the sale of performance parts. Even sales of parts for imported vehicles—in an area with a modest percentage of imported vehicle registrations—is a greater percentage. In all, 15% of Cox's total sales comes from the sale of parts for imported vehicles.

However, any retailer would be happy to find a good product category that would give him a solid 10% of his sales in a predictable manner. And, it can be a good market to tap to draw in customers who wouldn't otherwise be seen. Richard Davis, O'Reilly Automotive, Branson, MO, makes a special effort to sell these products. Why? "This is a market no other store in my town is pushing," he said, "so I have a good opportunity for added sales."

Performance Part Types

Not all performance parts are created equal. There are:

- **True Performance Hard Parts**

These products are at the heart of modifying a car to get maximum performance out of it. They include things like multi-barrel carburetors, cams, performance mufflers, shocks, and headers. According to a 1986 Specialty Equipment Market Association (SEMA) market study report, 34.5% of the performance market was in engine, carburetor and fuel injection, ignition, chassis and brake, and exhaust parts. In sales, this broke down to $110 million in internal engine components, $52 million in cams and valve train components, $9 million in gaskets, and $120 million in all other engine parts (except for pure engine dress-up parts, of which $30 million were sold.). Moreover, SEMA reported the sale of $11 million worth of clutches and flywheels, $18 million in floor shifters, $28 million in transmission parts, and $17 million in other drivetrain products.

- **Appearance Performance Products**

Since so many cars now can't be modified, and speed limits are so low as to make modifying them often a waste of time, many enthusiasts are now spending their money on products that make their cars *look* as if their speedometers can hit above the century mark easily. SEMA's study reported that 25% of performance product sales were in the pure appearance product area. These include products such as custom wheels, sun-roofs, running boards, louvers, "bras," and body styling components such as spoilers, which *can* actually aid performance at the extremely high speeds that are rarely reached by the average car owner.

Wheels also can improve performance, although they are generally considered in the appearance category. They make up a major part of the market by themselves; the SEMA study reported 16.9% of the overall market sales being in the custom wheel category. However, the bulk of custom wheels — as much as 80% — is sold by tire dealers.

- **Performance Tires**

Tires are both performance and appearance performance products. They are both capable of turning out improved performance and looking as if they do, too. They are generally bought by car owners who want to make their cars look, rather than actually handle, better. Tires rate their own category as a performance part type because of that; because they are often sold by specialty dealers rather than volume retail outlets; and because of their importance in the performance market. SEMA's study reported sales of $415 million in performance tires, for a 21.4% of the overall performance market. The sale of performance tires is often coupled, as well, with that of custom wheels. Retailers report that over half of the buyers of performance tires buy custom wheels at the same time.

- **Performance Chemicals**

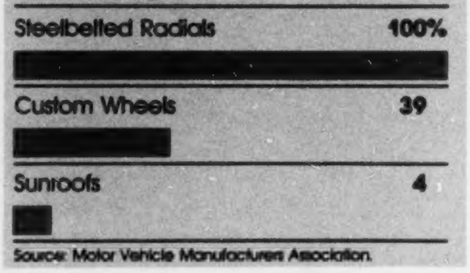
Performance enthusiasts are big chemical purchasers. In all, they spent some $12 million on engine oil additives, $10 million on octane boosters, and $8 million on waxes and polishes, according to the SEMA study.

- **Performance Protection Products**

No, these are not security products to keep people from stealing installed performance products. These are products needed to keep performance products working at their best. A good example would be the intercoolers that help turbochargers keep running by providing extra protection from the high heat found in turbocharged engines. Another example would be the transmission cooler, sales of which ran around $4.5 million, according to the SEMA study.

PERFORMANCE GOES OE

In a number of areas new car buyers are buying traditional high performance products from the new car manufacturer at the same time they buy their cars. Below are the percentages of those adding performance-type products to their 1986 cars when they bought them. But, a higher incidence of performance-type equipment also means more potential replacement and upscaling possibilities in the years to come as these cars age.



Source: Motor Vehicle Manufacturers Association.

Selling Performance Products

Performance products are surprisingly easy to sell. The spokesman for one high performance shock absorber company said performance product buyers are "very knowledgeable." They find out about the products they want from other performance buffs or buff publications. Indeed, SEMA's figures indicate that 92% of performance buyers decided what they were going to buy before going to a store.

In an era where stores are increasingly self-service style, therefore, it becomes important that the buyer be able to find what he's looking for himself — and easily. "I feel 100% that each store should have a proper layout," the shock absorber company spokesman said. "Performance should be grouped in its own area." The exception he makes is for overlap products like shocks or mufflers that are not that much different, especially in price, from regular products. Even in those product categories, there should be a small area in which either performance products are displayed or signs indicate that more performance products in this category can be found in the performance area.

This spokesman also feels strongly that some literature be incorporated into the performance display areas. "It's good for the customer to sell himself," he said. If the customer can read the reasons for buying a product that costs a few dollars more than the regular product, the retailer has a much better chance of making a higher sale.

Note Regional Differences

Another key to this unique market within a market is the retailer's ability to understand his own backyard. While each store in any chain might carry a relatively full line of aftermarket products, one might need two high performance salesmen while another might require only a part-timer. In one area the store might be in a seller's market, in another area clearly in a buyer's market.

For example, Thomas Hamilton, who runs a Western Auto Store in Ironton, MO, said that only 2% of his sales come from performance parts. "There's not enough market in our particular area up until now to make any special effort to sell performance parts and accessories," he said. B.F. Greer, whose Western Auto in Dublin, TX, does about 5% of its sales in performance, said that there are "not many enthusiasts in this area." But, Dave Holcomb, whose Western Auto Store is in San Pedro, CA, plans to increase stocks of performance SKUs, at least on a small scale, even though he believes that performance will never be what it was in the 1950s and 1960s.

REACHING THE TRUE DIYER

The nice thing about performance products is that they bring in the very serious, true DIYer — that customer who really helps the store's bottom line.

A case in point: the performance cam shaft.

It's not an easy job to install a new cam shaft. The leading non-OE maker of cam shafts has produced a 35-page-long booklet that tells a DIYer how to do that job: It's a job that starts with removing the hood. Thereafter, the cam shaft replacer has to remove the fan and radiator, water pump harmonic balancer, fuel pump, timing chain cover, valve covers, intake manifold, valve train, timing chain, cam sprocket, and, finally, the OE camshaft. Then, his garage floor covered with the pieces of his disassembled engine, he has to install the new cam and lifters. Finally, he's got to put all those pieces back the way he found them.

Not an easy job. Not a job for a faint-hearted DIYer.

But, this company also reports fully 75% of its cam shaft sales go to DIYers. And, any DIYer who will do this job has got to be the best type of customer an automotive aftermarket retailer can have.

Generally, SEMA's figures indicate, for example, that 26.6% of performance parts were sold in California, Oregon, and Washington, while only 14.7% of the consumer population lives in those states. On the other hand, 15.5% of the population live in mid-Atlantic states but only 11.0% of performance parts are sold there. Percentages between population and performance part sales can differ even more dramatically at smaller, local levels.

Only the retailer can determine the demographics of his own local marketing sector. But he will never know the art of selling high performance products unless he is willing to buy and display what's wanted. Those who follow that simple formula will be in the winner's circle at their local banks. ■

SHOPPING FOR INFORMATION?

LOOK TO YOUR COMPETITION

Your competitors can be the best source of information you have. But first, you have to know who they are and what they can tell you.

by **Gail Krueger-Nicholson,** Senior Editor

You can't ignore your competition. And, no matter how much you may wish to, you can't make your competition go away. But one thing that you can do with your competition, a move that is gaining favor with retailer managers, is to view the competition as a *source of information* instead of as just an adversary. You can take steps to implement this idea.

Who Is The Competition, Anyway?

First, identify your competition. Your competition may not be limited to who you think it is. It's a given that if you are "Joe's Aftermarket Store," you compete against "Bill's Aftermarket Store" for business. But what about all the other retail outlets in town? Do they, and just as importantly could they, compete against you?

To get a clearer picture of who the competition is, you should ask and answer two questions about the other retail outlets in your area:

- Who else satisfies the same customer needs as I do?
- Who else has and uses (or could have and could use) the same non-product/operational resources as I do? Non-product/operational resources include things like location, man-power, store hours, customer services, product suppliers, warehouse space, distribution, and other non-product items.

The greater the similarity between your store and other outlets, the greater the potential for competition. Potential competitors have the ability to satisfy the same customer needs as you do, or have similar non-product/operational resources to yours. Potential competitors turn into real competitors when customers perceive them as being able to satisfy their needs and when they use the same non-product/operational resources that you do to operate in your market.

How It Works

For example, instead of narrowly defining your competition by asking yourself who else sells oil, ask yourself who else can meet the customer's need to lubricate his engine. In the one case, if you are "Joe's Aftermarket Store" you may think your only competition is "Bill's Aftermarket Store" down the street. On the other hand, if you broaden your definition of who the competition is to include outlets that meet the need to lubricate the customer's engine, you realize that the competition includes "Bill's" as well as "Town Discount Store," "Bob's Fine Foods," and "Dick's Quick Lube" among others. They are potential competitors because they meet the customer's need in one way or another:

- "Bill's" is a lot like you: it sells three different brands of oil at three different price points.
- "Town Discount" also sells oil. It sells the same three brands you do plus a couple more, and it sells them for less.
- "Bob's Fine Foods" also sells oil. It sells only one brand, and it is tucked in between paper goods and cleaning supplies.
- "Dick's Quick Lube" sells oil through installation.

THE COMPETITION: ALL PRODUCTS

We asked our Retail Panel: "Which outlets do you consider to be your main competition in the sales of all types of aftermarket products?"

Independent Automotive Retailers	22%
Automotive Chain Stores	61
Independent Jobbers	30
Programmed Distribution Jobbers	22
Discount Stores	48
Hardware/Drug/Supermarket	2
Service Stations	0
Specialty Service/Installers	13
Car Dealers	2
WDs	5

Source: 1987 *AM* Retail Panel
Totals are more than 100% due to multiple answers.

THE COMPETITION: HARD PARTS

We asked our Retail Panel: "Which outlets do you consider to be your main competition in the sales of hard parts?"

Independent Automotive Retailers	20%
Automotive Chain Stores	39
Independent Jobbers	39
Programmed Distribution Jobbers	28
Discount Stores	15
Hardware/Drug/Supermarket	0
Service Stations	0
Specialty Service/Installers	7
Car Dealers	2
WDs	7

Source: 1987 *AM* Retail Panel
Totals are more than 100% due to multiple answers.

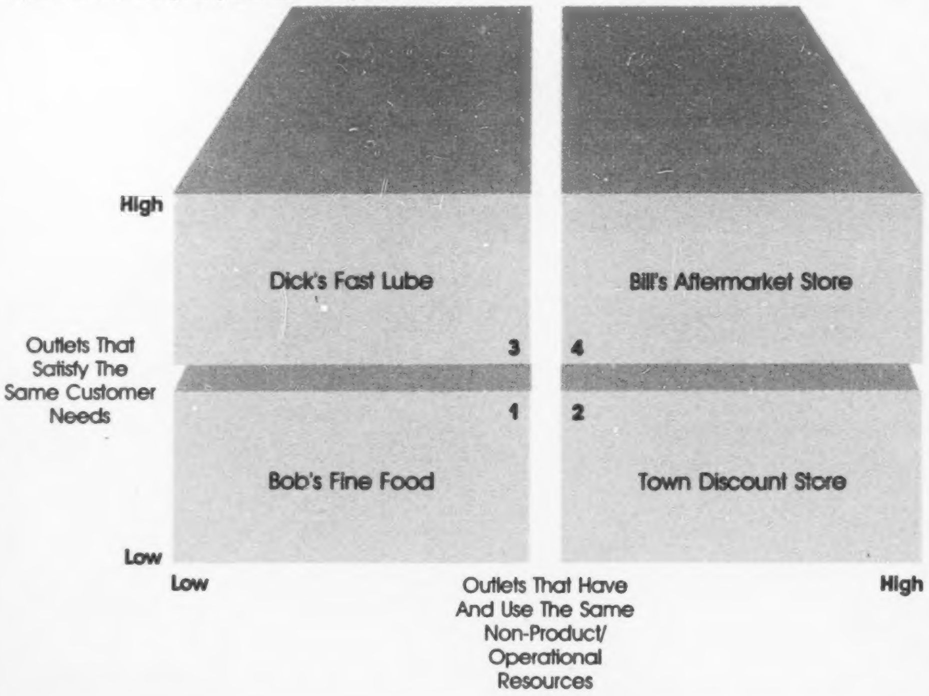
Shop The Competition

Next, answer the second question: Who else has and uses (or could have and could use) the same non-product/operational resources as I do? To do this, take a look at the chart called "Shopping The Competition." Use it when you shop the competition (we are assuming you are as smart as 87% of our Retail Panel and *do* shop the competition; and we are also assuming you are as smart as the 86% of them who do so regularly) to evaluate both product related facts and non-prod-

LOOK TO YOUR COMPETITION

COMPETITION SQUARES

Once you have identified your competition, place them in these squares according to how well they satisfy the same customer needs that you do (high or low) and if they have similar non-product/operational resources to you (high or low). Those outlets in square one are your least likely competitors. Those outlets in square four are your most immediate competitors. Those outlets in the square two and square three are your potential competitors.


High
Dick's Fast Lube
Bill's Aftermarket Store
Outlets That Satisfy The Same Customer Needs
3
4
1
2
Bob's Fine Food
Town Discount Store
Low
Low
Outlets That Have And Use The Same Non-Product/ Operational Resources
High

Source: Adapted from "Competitors As Sources Of Innovative Marketing Strategies," C. Whan Park & Daniel C. Smith for The Marketing Science Institute, 1986

uct/operational resources. Use it when you shop in "Bill's." Also use this chart when you shop "Town Discount," "Bob's," and "Dick's." Using our chart will give you a good picture of the competition's strengths. For instance, using our chart you would find out:

- "Bill's" has two full time clerks and one part time clerk who all know as much about oil as your guys do, and it keeps about the same hours as you do. But there is no parking here, and the store is cluttered and dirty inside.
- "Town Discount" is open more hours than you are and the oil is cheaper, but the clerks here do not know as much about oil as the ones in your store do and they are surly toward customers. Nevertheless, there are a lot of customers here and they buy a lot of oil.
- "Bob's Fine Foods" hours are longer than yours. And the clerks there know nothing about oil. However, the clerks are very customer-oriented, friendly, and helpful.
- "Dick's Quick Lube" has long hours and the installers are well-trained to do their job. But that is all that they do—they don't answer customer questions or sell anything else.

Ranking The Competition

Now that you have identified your competition and identified some of their non-product/operational resource strengths and weaknesses, you can rank them using our "Competition Squares" chart. Those outlets that fall into square four are your most immediate competitors (in this case, "Bill's"). Those in square one are your least likely competitors (in this case, "Bob's Fine Foods"). Here's why:

- "Bill's" is obviously the most like you. It sells the same product and utilizes almost the same non-product/operational resources.
- "Bob's Fine Foods" is the least like you. It is only related to you in that it meets the customer's need to lubricate his engine by selling one brand of oil. But it does not share any of the non-product/operational resources you have. To compete with you in selling oil, "Bob's" would have to get additional suppliers and different staff.

Those outlets in the square two ("Town Discount") and square three ("Dick's Quick Lube") are your potential competitors. Here's why:

- "Town Discount" has the non-product/operational resources necessary to grab your customers, and it already sells some of the same product.
- "Dick's Quick Lube" offers a need-based alternative to you. That is, it sells oil but uses different non-product/operational resources to do so.

THE COMPETITION: ACCESSORIES

We asked our Retail Panel: "Which outlets do you consider to be your main competition in the sales of accessories?"

Independent Automotive Retailers	7%
Automotive Chain Stores	37
Independent Jobbers	4
Programmed Distribution Jobbers	15
Discount Stores	65
Hardware/Drug/Supermarket	6
Service Stations	2
Specialty Service/Installers	2
Car Dealers	0
WDs	0

Source: 1987 *AM* Retail Panel
Totals are more than 100% due to multiple answers.

THE COMPETITION: CHEMICALS

We asked our Retail Panel: "Which outlets do you consider to be your main competition in the sales of chemicals?"

Independent Automotive Retailers	7%
Automotive Chain Stores	43
Independent Jobbers	2
Programmed Distribution Jobbers	11
Discount Stores	70
Hardware/Drug/Supermarket	17
Service Stations	4
Specialty Service/Installers	4
Car Dealers	0
WDs	2

Source: 1987 *AM* Retail Panel
Totals are more than 100% due to multiple answers.

What You Learned From The Competitors

So, now what do you do with all the information you've collected, all the rankings you have compiled? You learn from them, you use them for sources of information. Each of the competitors, even the least likely one ("Bob's"), has taught you something. For instance:

- When you study "Bob's," you worry

that if they ever turn those friendly, helpful clerks loose on a well-stocked automotive department within the food store you could lose a few of your top-off oil buyers. You decide your own staff needs to be more customer aware.

- When you study "Bill's," your most similar competitor, you realize the importance of a clean, neat store, and you feel you do a good job with that.
- When you study "Town," you decide your bulk oil display is not as effective as it could be because customers do not respond as well to it as they do to the bulk display in "Town." You decide to rebuild your bulk display.

THE COMPETITION: DO YOU SHOP THEM?

We asked our Retail Panel: "Do you ever go into a competitor's store?"

Yes	87%
No	11
Don't Know/No Answer	2

Source: 1987 *AM* Retail Panel

THE COMPETITION: HOW OFTEN?

We asked those of our Retail Panel who do shop their competitor's stores: "How often do you do so?"

Weekly	11%
Monthly	34
Every Three Months	30
Every Six Months	11
Yearly	11
Less Often	2

Source: 1987 *AM* Retail Panel

- When you study "Dick's," you realize that you could lose young, time-short customers to the installation business. You decide to strengthen other aspects of your operation—longer hours, helpful staff, customer service—to offset the potential of lost business.

Planning is the logical extension of this kind of fact gathering effort. You plan how you will improve the training of your clerks so they know more about oil. And you plan how you will improve their salesmanship so they are more friendly and responsive to customers. And perhaps, you plan on doing more oil installation than you did before.

Whatever you plan, by looking at the competition first, your plans will be better able to meet your customers' needs. ■.

SHOPPING THE COMPETITION

You can use this check list as you shop other stores to see how your store stacks up against the competition. Give your store a rating of 1 (worst) through 5 (best) on these points. Then shop all of competitive outlets and rate them the same way. Compare the check lists to see how your store rates.

COMPETITIVE FACTORS	YOUR STORE	THE COMPETITION
Pricing		
Everyday Prices On Parts		
Sale Prices On Parts		
Everyday Prices On Service		
Sale Prices On Service		
Product Selection		
National Brands Product Quality		
Private Brands Product Quality		
Product Selection		
Product Availability		
Ease Of Finding The Product		
Product Information		
Easy-To-Use Catalogs		
Easy-to-Use Application Charts		
Product Demonstrations		
Installation Suggestions		
Care & Maintenance Ideas		
Explanation Of Brand/Quality/Grade		
Guarantee/Warranty		
Customer Service		
Friendly Employees		
Helpful Employees		
Knowledgeable Employees		
Fast, Efficient Check-out		
Easy Returns		
Easy Warranty Adjustments		
Ease Of Credit		
Checks Accepted		
Service Work Done On Time		
Ease Of Special Ordering		
Personnel/Hours		
Number Of Full Time Staff (Est.)		
Number Of Part Time Staff (Est.)		
Level Of Training		
Hour Open Per Week (Est.)		
Number Evening/Weekend Hours Open		
Est.Co-op Advertising		
Customer Profile Estimates		
% Repeat Customers		
Weekday Traffic (#)		
Weekend Traffic (#)		
Average Carryout $ Sale		
Average Service $ Sale		
Time Required To Make a Purchase		
Time Required For Service Work		
Location/Accessibility		
Store Signs		
Ease Of Entry		
Parking Availability		
Exit Ease		
Store Appearance		
Store Atmosphere		
Accessibility To Other Shopping		
Total Points		